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ABSTRACT

Jointly authored by an official of the Detroit Branch of the Federal Reserve Bank of Chicago and a Bloomfield Hills Public Schools System (Michigan) school teacher, this document is designed to support the secondary school social studies curriculum in the study of Japan. The volume examines prevailing U.S. views of Japan, Japan's socio-economic comparison with industrial countries, 10 myths supported by the prevailing U.S. view of Japan, the "Grand Pacific" Alliance, and facts that point out the importance of the U.S.-Japanese bilateral relationship, and the need for the United States to address its major policy questions regarding Japan. The U.S. views of Japan usually extend from either convergent or divergent opinions. Convergent opinions view Japan's behavior based less on unique cultural traits and more on reasonable responses to fundamental needs and similar economic patterns. These views encourage closer cooperations among all nations, and place emphasis on harmonizing relations. Divergent opinions view Japan as wholly unique from the West, and advocate a "U.S. First" position along with protectionist measures, or emphasize government intervention, especially in correcting "unfair" trade. The prevailing view of Japan is divergent and interventionistic in nature. This view leads to many misconceptions about Japan, including the misconception that Japan is an unfair trader. These misperceptions may lead to policies that are detrimental to U.S. growth and development long-term. To foster economic development, the United States must have a long-term strategy that emphasizes savings, investment and human capital development, and the opening of markets. Contains 26 references and 25 graphs that portray various demographic and economic data. (Adjunct ERIC Clearinghouse for U.S.-Japan Studies) (EB)

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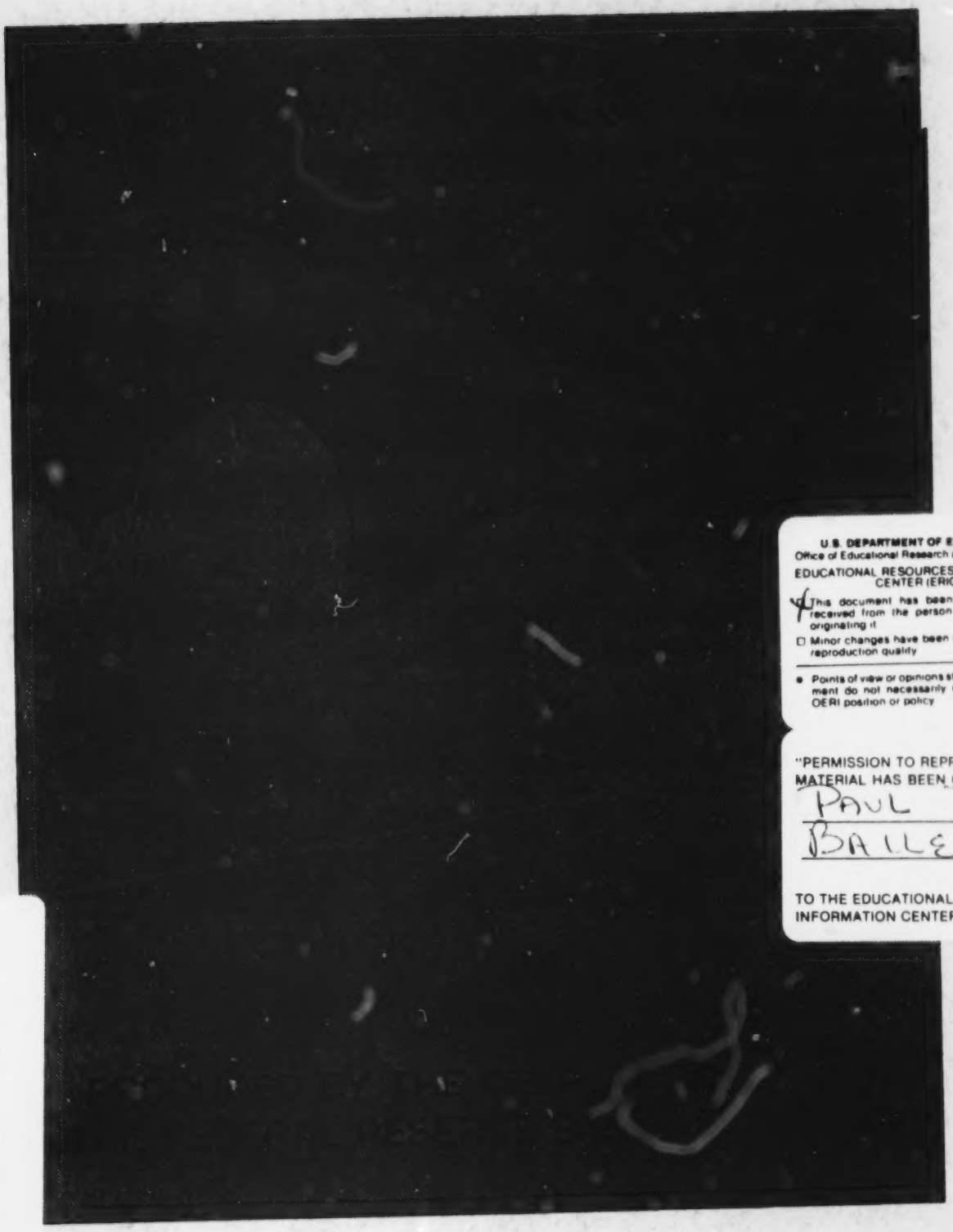

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A U.S. WHICH CAN SAY YES:
A CONVERGENT VIEW OF
U.S.-JAPANESE RELATIONS

In an era of increased trade and global integration few relationships are of greater importance than the one between the U.S. and Japan. Yet, few bilateral relationships are as paradoxical and few relationships of such importance suffer from as many misnomers and misrepresentation of factual information. The U.S., in particular, suffers from a distorted and seemingly contradictory view of Japan as both ally and enemy. Most troubling, in terms of this contradictory view, are the misunderstandings perpetuated by mythology, misconceptions and political agendas and certainly not reality. In fact, as we set forth below, there is hardly any area of public opinion which is dominated by more half-truths than American views of Japan.

This situation is certainly exacerbated by Japan's current economic success and our social and economic malaise. In America's search for a renewed sense of national identity and economic policy, Japan serves alternatively as a model for emulation and scapegoat for most, if not all, of the problems in the U.S. Due to these conflicting views, almost 140 years of close cultural and economic relations and currently the world's most important bilateral relationship rests on extremely shaky ground. In an effort to clarify factual information and present an alternative view regarding U.S.-Japanese relations, this publication has been prepared for educators and other interested observers. Specifically, the following information will be reviewed:

1) Prevailing American views of Japan.
2) Japanese socio-economic comparison with industrial countries.
3) 10 Myths supporting the divergent interventionist view.
4)The "Grand Pacific" Alliance, U.S. economic policy and the importance of bilateral relations.
5) Concluding thoughts on the future.

To fully understand the origin and level of misunderstanding in U.S.-Japanese relations we begin by reviewing four different perspectives of Americans concerning Japan and Japanese economic development.

AMERICA'S VIEWPOINT: DIVERGENCE vs. CONVERGENCE

Historically, American cultural studies of Japan have tended to approach the subject from two radically distinct viewpoints. In their attempt to understand the "Japanese" character, scholars have emphasized either divergence or convergence. Is Japan a country wholly unique from the west and, as such, only understandable on its terms? Or is Japan's behavior based less on unique cultural traits and more on reasonable responses to fundamental needs and similar economic developmental patterns? Most, if not all, contemporary Japanese studies seem to fall into one of these two categories. In particular, business and economic commentators frequently interpret Japan's current economic success as stemming from a unique Japanese blend of nationalism, democracy, feudalism, capitalism and even a form of Japanese communism. Others point to traditionally western fundamentals such as high personal savings, investment and belief in improving human and physical capital, low inflation and good old fashioned hard work. These conflicting perspectives color both the assessment of Japan's miracle and the lessons Americans can derive from it. They also leave unresolved many questions regarding Japan and relations between the U.S. and Japan. If Japan's economic success is built up restrictive trade practices and government controlled industrial policy, should the U.S. do the same? Does Japan's educational success provide a formula for reform here? What does the future hold for the world and the U.S. as this bi-lateral relationship suffers?

In an effort to answer these questions, and others, it is imperative to sketch four prevailing views which extend from either a divergent or convergent opinion of Japan. In the U.S. political arena divergence versus convergence views can be summarized as follows:

1) Divergence which is nationalistic and isolationist in nature. This view sees Japan as a feudal, militaristic and non-western country. The position advocates a "U.S. First" position and argues for protectionistic measures, isolationism and, to a lesser degree, "neo-"mercantilism. Competition becomes a survival of not only the fittest, but a "winner take-all" effort. This mind-set can also be seen from the perspective of a form of economic warfare.

2) Convergence from a free market and enlightenment perspective. The view espoused in the writings of traditional classical economists sees economic systems as governed by natural and immutable laws and, therefore, all economic systems and economic development can be described by certain fundamental principles. Among the most prevalent are factors determining growth and

development- high savings, private property, global integration and most importantly, free trade. This convergence view encourages closer cooperation between all nations.

3) Divergence which is interventionistic in nature. This view accentuates the cultural and social differences between nations and questions the merits of adhering to economic "laws." The view does not place strong emphasis on the merits of free and perfect markets; instead it emphasizes government intervention, especially in correcting "unfair" trade, and supports industrial policy and government intervention to correct perceived economic disparities. Due to its aggressive stance on trade and other international issues, this view may incorporate certain mercantilistic tendencies, although most proponents would emphasize "fair" trade in lieu of managed trade.

4) Convergence through acceptance of differences. This view, while acknowledging cultural, social and historical differences, places emphasis on harmonizing relations. The differences should be analyzed and understood; however, the similarities should also be brought to the forefront. Common interest and goals must also exist and these common bonds should be accentuated. This view may support free and open markets and tends to encourage further integration and greater cultural understanding. However, note that policy prescriptions may contain a degree of pragmatism.

Although all views of the U.S.-Japanese relationship do not fall neatly into one of these categories, most views are closely aligned to one of these groupings. These four categories are also extremely useful in terms of objectively reviewing literature and data on U.S.-Japanese issues. Finally, during the late 1980s and early 1990s there was little debate regarding the increasingly dominant or prevailing view between these four classifications. A divergent view which is interventionist in nature has been on the upswing due to the perceived trade imbalance/inequities and the continued stagnation of the U.S. economy. Unfortunately, this view, in the estimation of the authors, is not only one which is largely inaccurate, but one which can be, and has been, highly destructive to the world economic system. In the hopes of clarifying why the authors question this view and in the hopes of providing basic information on the issues surrounding this vital bilateral relationship, we have examined below ten of the most basic myths (or partial myths) concerning Japan. This examination is not intended to be apologetic to either society or economic system, instead it is a broad based breakdown of economic views and theory and data. Its intent is to clarify much of the misunderstanding which pervades the bi-lateral

relationship, as well as emphasizing the necessity of reinterpreting U.S. domestic and international economic policies.

INTERNATIONAL COMPARISON- INDUSTRIALIZED WORLD:

Any valid examination of the Japanese economy should begin from an international perspective. By viewing the composition of Japan's societal and economic structure in comparison to the United States, Germany and the United Kingdom the areas of commonality, and contrast become clear. The numbers in the aggregate present a picture of Japan which is neither totally unique (foreign?) nor identical to the other major industrialized nations. A summary of comparative data brings forth the following (see graphs enclosed):

1) Japan is a densely populated country in terms of habitable land: 1523 persons per km; in comparison the U.S. is land rich at 54 per km, (Germany is 384 per km and the U.K. is 365 persons per km.) Japan's population at 124 million is not growing rapidly, but with a land area equivalent to 4% of the total U.S. land size, land will always be scarce. (Reference graphs #1-3.)

2) Japan's population is aging rapidly (by the year 2025, 25% of the population will be over 65- see graph #4), however, the country does have the world's longest life expectancy at 76 years for males and almost 82 years for females. The U.S. and the major European countries have life expectancies approximately 4 years less for both males and females. (See graph #5.)

3) Japanese levels of college advancement rates are similar to the U.S. (44% to 37%) and much higher than European countries (generally 20 to 25%). This emphasis on human capital development is reflected in the longer school year as well.

4) Ethnically, Japan is an extremely homogenous countries with over 94% of the population ethnic Japanese. The U.S. is, of course, culturally diverse and European countries have high levels of foreign immigrants.

5) Socially, Japanese marriage and divorce rates are 50% fewer per 1,000 residents than other industrial countries, due, in part, to cultural traditions and an aging population. (See graph #6.)

6) Crime statistics indicate that the Japanese experience 1/5 the number of thefts that U.S. residents do and approximately 1/10 the number of violent crimes. (See graph #7.)

7) The Japanese spend less of their national income on health care than the U.S. (6.5% versus 12%) but are comparable to European levels. (See graph #8.)

8) Economically, Japan is an extremely wealthy country with a 1990 GNP per capita of $24,000 versus $20,000 for the U.S. and Germany and per capita in the U.K. of $15,000. (See graph #9.) (Also reference related discussion below- note that income levels are not the only indicator of economic development or comparative standards of living.)

9) The Japanese economy continues to expand rapidly with a growth rate between 1985-1990 of over 4% annually; the U.S. experienced growth of just over 3% during this period with Germany and the U.K. lagging slightly behind (at slightly below 3% and 3%, respectively). (See graph #10.)

10) The Japanese economy is similar to the U.S. in terms of composition with more employment in manufacturing and less in the service industries. However, the long-term trend indicates a continued movement toward services. In manufacturing the Japanese are the world's largest manufacturer of autos, second in steel production (behind the ex-Soviet Union) and a leader in consumer electronics and many high-technology industries such as semiconductors. (See graphs #11-13.)

11) The Japanese economy, like U.S. and European countries, is integrated into the world trading environment with trade as a percentage of GNP at less than 20% (the U.S. is slightly above this level.) The most important trading relationship is with the U.S. which receives almost 1/3 of all Japanese exports and provides almost 1/4 of all Japanese imports. (The Japanese are the largest importers of U.S. agricultural products, even without accepting rice.) (See graphs #14-15.)

12) Japanese exports have traditionally been dominated by manufactured goods- especially consumer electronics and automotive equipment. An interesting development in the 1980s has been the increasing reverse flow of manufactured goods back into Japan. As a percentage of total imports, manufactured goods represent over 50% and this trend is moving upward. (See graph

#16.) Note that this level is still below U.S. and European levels of over 70%, however, the gap has closed dramatically in the 1980s.

13) Japanese world integration has accelerated significantly in terms of trade flows in the 1980s (see graphs #17-18). Exports saw significant growth in the early to mid-80s and much of the current trade friction developed in this period. Later in the decade (especially after the depreciation of the dollar) imports increased significantly and have narrowed the merchandise trade gap (in nominal amounts and as a percentage of GNP).

14) The Japanese are the third largest direct foreign investors in the world behind the U.S. and the U.K. (The U.S. still accounts for 30% of all direct foreign investment in the world, well above Japan's level of 11%.) The largest area of Japanese investment has been North America, which accounts for almost one-half of the foreign investment to date. It is interesting to note that the U.S. is the largest foreign investor in Japan; although at a level of approximately $10 billion it is dwarfed by Japanese investment of $100 billion in the U.S. (See graphs #19-20.)

15) The Japanese economy is an efficient user of energy, something which is in scarce supply in the country. Its per capita consumption level is 50% of the U.S. level and less than all major European countries with the exception of Italy. (See graph #21.)

16) In terms of international labor markets, Japanese wages are comparable or exceed U.S. levels, although they are generally below German levels. Unemployment in Japan has been very low since the 1970s, usually 3% or less; and with the growing labor shortage this factor should not change radically in the future. The U.S. has recently experienced unemployment of above 6% and European economies, with the exception of Germany and the U.K. (both have unemployment levels which have been between 5.5 and 7-8%), experienced double-digit unemployment in the 1980s. (See graph #22.)

17) The Japanese tax structure, although possessing a generally lower rate of taxation, has much higher marginal tax brackets than the U.S. (See graphs #23-24.) Note that the tax policy in Japan is oriented toward income taxes and that taxes, for the most part, on capital are avoided.

18) Japanese savings and private domestic investment are enhanced by a favorable climate and strong domestic growth. National savings as a percentage of GNP is in excess of 30%, a level

which is twice the level of the U.S. and higher then Germany (26%) and other European countries (most in the low to mid-20s). In terms of capital formation, in 1991 Japan had the highest level of private domestic investment in total dollar amounts. Astounding when you consider that the Japanese economy is only 3/5ths the size of the U.S. Accentuating this business climate has been financial de-regulation and a consistent playing field with little or no inflation. (See graph #25.)

In view of this background an initial conclusion may be drawn that Japan is somewhat similar to the U.S. and European economically (with some exceptions), but does possess many cultural, geographical and social differences. From this base of information some commentators and theoreticians would further argue that there are many other factors which make Japan and the Japanese economy different. These differences, proponents advocate, force us to treat the Japanese with a degree of exemption from economic laws and furthermore require us to either emulate or discriminate against Japan if we are to prevent a cultural and economic onslaught. This perception (or misperception) is the basis for the topic we turn to next, ten of the most prevalent myths regarding Japan and the Japanese economy.

MYTH vs. REALITY

Myth #1: "Japan Is Not A Capitalistic Economy."

Both critics and supporters alike have consistently pointed to what they consider to be the major economic difference of the Japanese system, its non-capitalistic, non-adversarial process and overt intervention of government industrial planning. Due to this perceived strong administrative hand and emphasis on harmonious relations, Japan "can't be considered a market economy; it's different and must be treated in a different manner." The first problem with this belief is one of definition; what is a capitalistic economy? If it is one which relies on private property (ownership of the means of production), a price system, private transactions and other forms of individual initiative, then Japan fits the definition. It's government in terms of total spending is much less interventionist then other western economies. For instance, in 1990 governmental spending as a percentage of GDP was under 33%; this compares with U.S. spending of approximately 45% and over 45% for most European countries. Of course, if the strict definition of capitalism is laissez-faire in orientation, then neither Japan, nor any other government, is truly capitalistic. Laissez-faire has never really existed and the fact that the Japanese government intervenes in the

economy and for social purposes does not necessarily taint its claim to be a capitalistic society. Furthermore, if one examines the level of private domestic investment it can be seen that as a percentage of GDP, Japanese levels exceed 32%, a level which is double the U.S.[1] Of course, it should be noted that although Japan is a market-oriented economy, most observers would agree that its version of the market may be different than others. At times the government may be more overt or intrusive, at other times businesses may request special privileges (all businesses do) and at other times an industrial policy may be rigidly enforced, but other governments are also intrusive. Furthermore, the existence of government regulation and/or influence does not in and of itself prevent private property and private initiative from dictating the development in a nation. The question becomes whether or not government policy fosters private activities, for instance with the building of infrastructure, or distorts private initiative through punitive taxes and other counterproductive policies. If Japan is gauged by this criteria then it is doubtful that their economic system can be classified as less than capitalistic in nature.

Myth #2: "The Japanese Miracle Transformed An Agrarian Economy Into An Economic Dynamo."

This belief is in part substantiated by the fact that half of the population still worked in the fields by 1946. Yet, having noted this predisposition, one should not assume that the Japanese economy was a back-water environment which was regressing in nature. In fact, Japan had been rapidly developing for almost 100 years from the start of Meiji era.[2] This era ushered in the great development of the nation, which began by focusing on mandatory education in 1872 (the country had a literacy rate of 15% at the time) and continues today through the development of world-class labor. As Confucius once wrote, "If you plan for a year, plant a seed. If for ten years, plant a tree. If for a hundred years, teach the people." Japan took this belief and developed its

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[1] A large portion of U.S. savings is allocated through governmental savings and transfer programs therefore comparative savings levels between the U.S. and Japan give the misperception that our lack of private domestic business investment occurs due to insufficient savings. A more accurate assessment should examine tax policies and other measures which discourage capital formation in the U.S.

[2] Many historians, including Winston Churchill, have noted that the economic isolation of an industrialized Japan was a contributing element fostering the nationalism and eventual hostilities. The invasion of Manchuria and Indonesia were not only territorial acquisitions, they were economic conquests as well.

indigenous resource, people, and experienced an economic boom from 1870 through the 1940s. In fact, from 1885 to 1919 Japan had a remarkable period of development. During this period output per person in society doubled; quite an accomplishment for a one time feudal and insulated society which prior to 1853 was isolated from the world. Yes, war and a nationalistic mind set did retard much of this growth during the war. However, after the devastation of the war, it was the development of capital, human capital, from the previous period which would fuel the boom. In essence, Japan did not begin its post-war economic boom from a third world base. Its 1945 GNP per capita may have only been one tenth of the United States' level and its manufacturing base was decimated by the war (industrial capacity was estimated at 35-40% of the pre-war level), but the underlying base of education, governmental and administrative skills, technology and even the war-ravished infrastructure were much higher then other societies in the world. Yes, the reforms implemented by the occupying forces between 1945 and 1952 fostered the elements of economic growth and the thirteen-fold increase in output. However, they could not have succeeded to the extent they did without the ground work previously laid. No society can instantaneously go from third world to first world; the investment had to be made in a previous time period and sacrifices incurred. Japan had done this for one hundred years and a senseless adventurous period of twenty years only temporarily slowed the progress. (Thus the rapid decrease in output and living standards.) Therefore, the assumption that the Japanese economy was strictly agrarian and developing prior to 1945 is a misnomer. A more accurate assessment would likely equate Japanese development as being parallel to the U.S. (although lagging somewhat).[3] The growth after 1945 had its formative years in the first four decades, with a brief and painful exception between 1930 and 1945.[4]

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[3] Please see "The Determinants of Economic Growth: An Inquiry Into The Developments of Southeast Asia", a publication produced for teachers by the Detroit Branch of the Federal Reserve Bank of Chicago.

[4] Since the Meiji Revolution of 1868, Japan, with occasional interruptions, has been progressing toward westernization and industrialization. Having noted this the post-war accomplishment should not be overlooked. Economic growth of over 5% since 1965, per capita income levels comparable to any country in the world, a net capital surplus of almost $100 billion a year, and the development of the second largest economy in the world are all testaments to Japanese development. The point that must be stressed, especially in terms of drawing conclusions for other countries, is that this period of growth was preceded by necessary developmental reforms. The key to success having been forged in an era which began to emphasize private property, individual initiative, savings, capital investment and most important human capital development. This period

Myth #3: "Due To Its Special Type Of Capitalism, Japan Is Immune From The Laws Of The Marketplace."

Once again upon initial inspection this conclusion appears supported by fact. After all, Japan seems to be immune from the forces of the market in so many different areas; including government intervention which appears useful and thoughtfully implemented. However, several lessons should be drawn from the Japanese model. Lesson number one is the fact that the Japanese economy relies on the basic elements of the market, namely private property and individual initiative. Secondly, the laws of the market from problems with excessive concentration to price shocks to policy impacts affect the Japanese economy as well as all other economies. For instance, laws which restrict the distribution or retail sale of products have consistently led to higher prices for consumer goods, especially agricultural products. (Note that the U.S. recently succeeded in changing existing Japanese laws and practices regarding location and distribution restrictions thus helping the Japanese consumer.) This is a specific application of how a market functions, and what occurs due to excessive concentration and limited competition. The oil shocks of the 1970s adversely affected the Japanese economy along with other developing nations. For instance, Japan experienced a receding economy coupled with double-digit inflation during the two price shocks of the 1970s. This condition was identical to the one experienced by the U.S. and other developed countries. Finally, much has been written regarding **keiretsu** or the system of interlocking companies which appears to operate like a cartel and therefore fosters monopoly concentrations in Japan.[5] Such an assumption overlooks the fact that vertical integration has been tried many times in the U.S., especially in the 1960s, through conglomerates and other organizations. Third, defining excessive market concentration in a global environment with free entry and exit is very hard, and in most cases unnecessary to accomplish. Competition is alive and well in most economies; in fact, without the pressure to compete,

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was a hundred years prior to the miracle of the 1960s.

[5] Most observers note that **keiretsus** are a barrier to trade, at least to some degree. However, the emphasis is probably an overstatement and questions regarding the inefficiencies of such organizations overblown. It appears likely that keiretsus operate because they provide operational efficiencies and other gains. Otherwise the firms participating in them would suffer in terms of international competitiveness, especially outside the Japanese market. A fact which is certainly not consistent with the performance of these firms throughout the world.

Japanese firms could never become world leaders and/or retain that position. Therefore, when one examines Japanese auto makers one should note that these firms did not become world leaders through cartels and large bureaucracies; instead the need to survive in Japan's highly competitive domestic market forced the firms to develop. Undoubtedly governments may successfully at times mute or distort the laws of the market. Furthermore, societies in terms of preferences and value systems may cause the market to behave in a manner different than other societies; in fact, all societies and economic systems can be differentiated in this manner. These facts do not mean that any society is immunized from the invisible hand, rather it means that the invisible hand is working toward a slightly different goal.

Myth #4: "Japanese Bureaucrats Are Efficient Decision-makers."

This mind set implies that the Japanese government and governmental system is far more efficient and effective than the U.S. or other governments. The statement heaps praise on Japanese bureaucrats and faults other governments around the globe. It should be noted that other governments have achieved successes as well; from space programs to national infrastructure programs. If the statement implies a direct linkage regarding the efficiency of the government in developing a grand economic design program, it should be noted that this view may be incorrect as well. For instance, Japanese success stories are offset by multiple failures. For instance, the decision at one time was rendered to prevent Honda and other firms from building autos; or the emphasis on ship-building which is labor intense and has become a failure for the Japanese economy; or finally the agricultural sector which is one of the most inefficient in the world (and is a direct result of bureaucratic intervention). If the statement implies that the Japanese government has made decisions which foster the functioning of the private sector, then the testimonial can, at times, be applied to most governments. The true testament to the foresight of the Japanese government may be seen in their attempts to achieve price stability, restrict excessive taxes and encourage savings and capital formation. These factors have undoubtedly been highly successful in fostering the fastest growing economy in the developed world. Conversely, if one examines other governmental policies one may find fault with U.S. policy in particular which discourages savings, capital formation and human capital development. The truism in this myth may be that some governmental actions have been better than others; but it should not be interpreted as a broad justification for more government just for the sake of larger government.

Additionally, gains in government efficiency may emanate, in part, from societal habits to foster consensus and harmony. Bureaucrats in Japan have shown a tendency to consult and coordinate with the private sector rather than overtly dictate. This behavioral trait may be very consistent with other policies which seek to foster an environment which is conducive for business expansion and development. The concept of a "Japan Inc." is undoubtedly an overstatement of the cooperative tendencies of government agencies. Yet, due to cultural, social and historical traditions (as well as good policies) Japanese government agencies may be more pro-business and cooperative in nature than their western counterparts. (Once again please note that cultural traditions should be stressed along with the similarities.)

Myth #5: "Japanese Labor Is The Most Efficient In The World."

This myth reflects the tendency to ascribe the rapid growth in the 1960s, 70s and 80s into a view of world supremacy. Most international measures indicate that U.S. labor overall is still the most productive in the world. However, in certain sectors, like manufacturing, and in terms of annual growth in productivity, the U.S. has fallen behind other nations. Although manufacturing productivity increased in the 1980s, overall productivity grew only at a 1% rate during the decade. Japanese labor productivity grew at three times this rate! The difficulty for the U.S. lies not in the ascension of these other nations, but in its own dismal performance. Slow increases in productivity with a stagnant workforce in terms of numbers equates into a stagnating economy. The Japanese and other nations have achieved their relatively high rates of development the old fashioned way, they earned it. They invested in plant and equipment and most importantly human capital, and this expenditure has paid off. The question, once again, for the U.S. is not the tragedy of Japanese growth and development, but how the U.S. can re-establish a labor force which is the envy of the world.

Myth #6: "Japan Has The World's Highest Standard Of Living."

Evaluation of wealth on the basis of per capita GDP would indicate that the Japanese actually have the second highest level of output (on a per capita basis), behind only Switzerland. This evaluation neglects many elements regarding the quality of life, and therefore must be adapted to consider well-being. For instance, accounting for other quality of life statistics, from housing

availability to health care, the data changes radically.[6] For instance, the average Japanese worker spends over 1/5 of their personal consumption expenditures on food products. In the U.S. this expenditure is approximately 10%. The average Japanese spends almost 2,100 hours on the job each year while his/her American counterpart works only 1950 hours (and the Germans, who must love leisure, spend just over 1600 hours on the job each year). The average Japanese worker takes fewer holidays and vacations; in fact 1/3 the number most European workers take. Due to crowded and stressful lifestyles, the Japanese on a per capita basis consume more prescription drugs than any other nation. Much of this stress stems from a nation with 50% of the U.S. population crowded onto an island the size of California, or approximately 4% of the U.S. total. This scarce land obviously contributes to its high value and limited accessibility in terms of home ownership, although at approximately 60% home ownership is relatively high (it is falling for younger generations). In all fairness to the Japanese lifestyle, it is one of the best in the world. They have the world's longest life expectancy; more hospitals and more hospital beds than the U.S. (also more pharmacists); and income levels which are by any measure the highest in Asia. Thus, although quality of life measures must be adapted from raw numbers, one should not conclude that the Japanese are economically destitute. Furthermore, there is general consensus among Japanese workers, business leaders and government officials that more attention must be devoted to economic welfare and quality of life issues. Efforts to increase leisure time, reduce consumer prices and grant more vacation time will help to adjust for the current discrepancies in living standards.

Myth #7: "Japan Has A Homogenous Society."

With a pre-tax and after tax income distribution as equal as any in the industrialized world and with a population comprised of more than 94% ethnic Japanese, a description of Japan as a homogenous and relatively equal society is fairly accurate. However, this is not to imply that Japan does not have its internal divisions; it does. The society overtly discriminates against **burakumin** (hamlet people) and Korean immigrants; it limits opportunities for women; has high wage differentials between first-tier and second-tier industries (and more significantly primary

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[6] Japanese visitors to the U.S. and Europe frequently comment on a variety of factors in attesting to lifestyles not up to the levels of others. One of the most recent and significant developments in Japan has been efforts to improve the pricing and availability of goods for consumers. As distribution systems and old pricing mechanisms fall by the way the quality of life in Japan should continue to increase.

products); and has a large generational wealth gap between young (land poor) and elderly (land rich). Some commentators have also questioned the treatment of the aged and disabled who are forced into early retirement with limited pensions or reduced wages and/or become dependent on their children. Along with these social ills, during the last few decades the Dentsu Institute for Human Studies through surveys has documented a gradual transformation of the consensus which existed regarding societal values. From the survivors of World War II to the newly wealthy "middle generation" and their even wealthier children, a transformation, similar to other countries, has begun. At extreme the **shinjinrui** (new human beings) display values similar to western youth: consumption over savings, leisure over work, and other social "western" work and social habits. Other segments of the population, including the overworked and overburdened middle class, have also begun to exhibit a degree of independence. Thus, the overwhelming consensus of opinion which arose after the war has begun to fragment and this is posing problems for such stalwarts of Japanese society as the ruling Liberal Democrats. With these developments noted, however, it should still be stressed that the Japanese still overwhelmingly perceive themselves as middle class, support a seniority system of promotion and wage increases and maintain a belief in the merits of a consensus oriented society. The Japanese, while finding more time to accept individualism and creativity, still maintain a degree of social unity and harmony. Lastly, the emphasis on groups, usually to survive in an overcrowded island, hurts individuality and therefore spontaneous activities. This lack of innovative thinking and other initiatives undoubtedly hurts their competitive position in many industries, although helping in many others.

Myth #8: "Industrial Policy Is The Way To Go."

This statement is predicated on the above in terms of supporting the myth that Japanese bureaucrats are the most efficient in the world. This portion poses two questions: 1) have the Japanese been successful in picking the winners and losers in the economy; and 2) if so, is this system applicable to other nations? In terms of the first question, the data is mixed. Undoubtedly, at times the Japanese government has intervened and either insulated domestic industry for foreign competition and/or attempted to direct the resource allocation in society. This statement of fact should not, once again, dwarf the importance of private property and other market forces. Nor should it ignore the failures, as noted above, of such a policy. Regarding the second question, in theory the application of such a system is mute; the U.S. and other governments already have policies which encourage and/or discourage certain industries. From tax breaks to

trade restrictions, these policies influence winners and losers and how resources are allocated. Having said this, we believe that it is not unfair to state that much of U.S. government intervention has been inefficient and at times counterproductive. From trade quotas to tax abatement policies, the efficacy of such policies is questionable indeed. Additionally, intuitively one should question the merits of government intervention. Without perfect information and operating in a highly charged politicized environment, the output of such a process is suspect. Therefore, the question of an applicable industrial policy probably should not be oriented toward some grand design and/or policy statements. Instead, the merits of an industrial policy may involve finding and establishing the economic merits of all government intervention. In this context perhaps the best industrial policy is one which fosters growth and development in a constructive, nondiscriminatory manner. Policies which encourage investment, human capital development and a stable, non-inflationary operating environment may be the best industrial policy in the world. In fact, over the course of modern history nations, including the Japanese in the post-war era, which have focused on this factors have achieved some amazing things. And perhaps this is the bit of information we should assimilate from the Japanese industrial policy.

Myth #9: "Japan's Economic Future Is Unlimited."

This myth is a myth for all countries unless the factors are put in place which encourage growth and development. Yes, Japan is endowed by certain factors which give it a head start on many nations: it's wealthy, it has surplus domestic savings, capital investment is ample, and the workforce is literate and motivated. However, to maintain prosperity and to grow a nation must do much more than to wish for it to continue, they must earn it! Private investment has to be encouraged, savings formed, workers trained and governments restrained. Furthermore, social and economic problems must be addressed before they erode the foundation of society. In Japan this means addressing a severe labor shortage, a rapidly aging workforce, woes in the financial system, changing century old attitudes toward women, integrating fully into the world's economic system, and restructuring industry to a service oriented economy. The country faces these problems and others, and therefore it should not be assumed that increased wealth is inevitable.

Myth #10: "Trade Policies Created Present Day Well-Being."

One may argue, and rather successfully, that development occurred in spite of the trade restrictions. In all fairness, undoubtedly trade restrictions help the industry receiving the

protection. However, this help may be only temporary and in the long-run may encourage the firm never to become "lean and mean." Additionally, the assistance comes at a price, usually a high price: export industries are harmed, nonprotected domestic industries are at a disadvantage, consumer well-being is reduced, and the potential for international disputes increases. For instance, in 1991 it is estimated that every American family will pay $1500 in higher prices to support the over 8000 trade restrictions imposed by the U.S.[7] These restrictions lose sight of the greatest economic benefit of the latter half of the 20th century: the movement toward free and unrestricted world markets.[8] Success was found through this movement and world well-being has been undoubtedly enhanced through this process. And no country, not even Japan, has developed without a large dose of world integration. Yes, protectionism was strong in the 1960s and 1970s, but how much, if anything, this protectionism contributed to internal growth is questionable. It is more likely that development occurred in spite of these provisions. Finally, in terms of the U.S. we cannot and should not retreat into an isolated shell. As the world leader and an economic system which is increasingly dependent on world markets to sell goods and services this retreat may be fatal. For instance, total trade in terms of goods and services as a percentage of total output has risen significantly since 1960. In 1960 the level was approximately 8% of GNP, by 1990 it had risen to 25%. Export markets continue to be the primary stimulus to a weak U.S. market and global capital dependency is the life blood which has sustained the U.S. in spite of fiscal mismanagement at the federal governmental level. Therefore, now is not the time to retreat from the world scene. We tried this policy once in the late 1920s and its impact contributed to the decade-long global depression; a mistake that the world has attempted to avoid repeating throughout the post-war period. Finally, many would point out that Japan, in comparison to other developed countries, has more restrictions (hidden and overt) on trade. And while it is true that Japanese business and ministries have cooperated to restrict trade flows and maintain protectionist measures, it should not be equated with economic success. When the producer lobbies get their way, which is not often, it is certainly not for the benefit of the overall

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[7] Estimates provided by GATT and the OECD.

[8] In all fairness to the U.S. most countries have barriers which are much higher than the U.S. Some barriers like regulatory requirements and distribution networks are hidden, others like quotas and tariffs are visible. Japan, in particular, imposes many hidden restrictions and with products like autos those restrictions can pose a real barrier. Most restrictions have fortunately been reduced since the 1950s, and hopefully through the current GATT talks other barriers can be eliminated.

society. The distortions and costs on consumers and other firms exceed the gains by that one firm.[9]

THE GRAND PACIFIC ALLIANCE:

During the dark days of World War II Winston Churchill longed for and eventually received a savior, a Grand Alliance between Anglo-Saxon countries which could combine economic and military might to overwhelm the Axis powers. Churchill's belief in this alliance proved insightful and for the sake of the free world fostered an era which, absent the Cold War, would bring forth the potential of economic, social and political prosperity for the majority of the world. Now, however, with the end of the Cold War and the ushering in of the "New World Order" it is up to the world to grasp this promise. The authors believe that the primary means of grasping such an opportunity lies in establishing a new Grand Alliance, this time an economic one. This alliance, unlike the one of the 1940s, is not exclusively Anglo-Saxon in composition. Instead, it is an alliance which revolves around the two most dominant economic entities in the world, the United States and Japan. What makes the preceding so vital, in terms of discussion, is the fact that this alliance for the world's sake must be nurtured and not destroyed on the banks of isolationism and a 21st century mind set of mercantilism (disguised in terms of "managed trade"). The world simply cannot afford the most important bilateral relationship to deteriorate to such an extent.

The relationship is of strategic importance to the world as a whole, yet relations are increasingly strained and disagreements are too numerous to mention. The authors of the preceding do not intend to make excuses for either party. Instead, it may benefit us all to review the factual information above and the overall importance of Japanese-U.S. relations before stroking the fires of further resentment. To conclude this analysis a brief review of the strategic importance and additional information (or new perspective) on U.S. hostility toward Japan is provided.

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[9] Interesting to note that Japan's average tariff rate is below the U.S. and European nations; in terms of non-tariff barriers (quotas) Japan, according to the World Bank, is similiar to the U.S., with Japan restricting agriculutral products and the U.S. restricting manufacturing goods. The cost to Japanese consumers for these subsidies is in excess of $90 billion annually- a steep price to pay to help less than 5% of the country's population.

The importance of the bilateral relationship can be illustrated by reviewing in economic, military and social terms the dominance of the U.S. and Japan in the world. For instance:

-The two countries represent the two largest economies accounting for over 40% of the world's output. The U.S. alone accounts for a one-fourth.
-The U.S. is the largest exporter and importer of goods and services in the world, while Japan is third in both categories. Their combined share of world trade is equivalent to 25% of all goods and services bought and sold in world markets.
-The two countries represent the largest financial sectors in the world. The U.S. is more than the world's largest borrower, with international markets which provide need intermediation throughout the world. The Japanese are one of the world's largest pools of domestic savings and, therefore, is becoming one of the fastest growing international investors, especially in the developing world.
-The two countries are the largest foreign aid providers, providing over $25 billion dollars a year, which is almost half of all foreign aid in the world.
-The mutual defense pact between the two partners is the backbone of the strategic alliance in the Pacific and is essential for stability in the world's most important region.
-Trade and economic dependency between the two nations is strong and vital for world prosperity; the U.S. and Japan are the two most important economic markets and investors for most of the world.

As the world's most important bi-lateral relationship it is essential that the U.S. address its major policy questions regarding Japan, including the following:

1) Fair Trade versus Free Trade. The U.S. must first come to grips with the fact that we are not pure of spirit in our actions. As noted above, we have over 8,000 tariffs and other restrictions in this country. Furthermore, contrary to the intent of GATT, we continue to deploy measures such as countervailing duties arbitrarily with little respect for international agreements. Yes, the Japanese have and continue to restrict U.S. products. They do not allow U.S. agricultural products in completely, but we don't allow in third world peanuts, sugar and other staples. Yes, they use regulations and distribution systems to limit access. Yes, we should fight for market access. However, even with market access it is doubtful that we can gain supremacy in autos and other goods without significant improvements in quality and price (and also show a willingness to place the steering wheel on the proper side for Japanese motorists.) The U.S. must also come to

grips with the fact that quotas are a fool's policy and merely limiting supply does no more than drive up prices and subsidize Japanese producers along with American. Additionally, a review of basic facts must all be thrust to the forefront. Japan is not a closed market, it imports lots of products- almost a quarter of a trillion dollars annually. As a percentage of GNP this number may be low in comparison to Europe, but it is comparable to the U.S. Yes, barriers exist, informal ones in particular, however resolution of barriers not creation of new ones should be our concern. Finally, the U.S. must realize that fair trade is a two-way street and to get we must give and not just selectively choose the sections of trade accords we like. The U.S. may have incurred sacrifices in carrying the banner of free trade but the benefits far outweigh the costs.

2) "Foreign investment and the buying of America." One of the greatest misunderstandings of the 1980s was the fact that foreigners were buying up America as some form of grand conspiracy. Such a misunderstanding is detrimental in two forms. First, it prevents us from seeing that foreign investment can be beneficial to an economic system. It can provide needed funds not available domestically and therefore foster investment and development in the country. This is the condition which occurred in the U.S. in the 1800s as we developed as a nation. Secondly, the misinformation in the 1980s overlooked the cause of the inflow of foreign capital. This source did not lie abroad, instead we would have benefitted from a good examination in the mirror. Upon close inspection we would have found a nation which consumed more than it earned at all levels. A nation which was fiscally irresponsible and needed, just like an individual who consumes beyond their income levels, to either sell assets, reduce savings or borrow from others. This is what we did in the 1980s; we sold property and businesses to foreigners, we reduced our savings level and accumulated assets, and we borrowed from abroad. We were like the alcoholic who blames the party store for selling liquor as the cause of his/her addiction. What we need is somebody to tell us that the problem and the solution lies inside, as soon as we admit we possess the addiction, we can begin the treatment. A final point to note which is worth remembering is that the U.S. is still the world's largest direct investor, twice as large as the United Kingdom and three times Japan. We too have been criticized for investment patterns, but at the same time most countries (including the U.S.) court investors at every turn.

3) Defense policy and burden sharing. Yes, the U.S. has shouldered the burden for the defense of Asia but in all fairness that's the way we wanted it. The Japanese constitutionally are restricted; and as long as the Cold War continued, the U.S. had to meet its obligations. Recent data indicates that the Japanese have been more cooperative than other host countries, paying

over $3 billion a year to support the U.S. presence; far more than other countries. Additionally, their financial contributions to development and other aid programs exceed U.S. expenditures. Undoubtedly they must play a more active role; however, if they do, the U.S. must be willing to allow them more than the role of the financier, they must have an equal seat at the table.

4) Long-term Economic Lessons for the U.S. With regards to trade and other economic policies, the United States really faces two questions (although both are linked). The first question concerns the necessary elements for economic growth and development. Surrounding this question are unresolved issues regarding governmental activities and policies. How in a global, interrelated world can the U.S. foster economic growth and development? The answer, not surprisingly, lies in the basic determinants of growth and development: savings, investment and human capital development. **It does not lie in some miracle elixir and government superimposed master plan.** History has proven a market-based economy to be the most effective form of economic organization in the world and it is up to governmental entities to accentuate the market process while efficiently resolving concerns over equity and other issues. For a developed nations development can only be fostered in such a process, espceially one which accentuates human capital development. In a global environment with reductions in artifical and structural barriers nations who foster such a climate will succeed, those who don't and try to maintain the status quo will find their solution to be less than optimal. The second question concerns how international relations and a trading environment which is less than perfect impact U.S. growth and development? Relations with Japan are, of course, at the forefront of this question. The problem in the international environment is that we become so entrenched with the Japanese as unfair traders (all nations are) that we lose sight of the policy which is most advantageous to the U.S. and the world. In essence, in this world of unfair trade and less than perfect markets, what can and should the U.S. do to foster development? One thing we can't do is retrench from the global scene and hide in an isolationist shell. Secondly, we can not afford, and therefore should not engage in, trade policies, like quotas, which are counterproductive and encourage the status through a long-term policy which is suicidal. Instead, we must have a long-term strategy, one that emphasizes the opening of markets and the merits of free movement of resources and goods. This environment should be at the multi-lateral level and will at times require sacrifices. However, these sacrifices are well worth it due to the fact that global integration and the movement toward free trade are essential elements in a long-term growth strategy which is long overdue.

CONCLUSION

In sum, the preceding has attempted to clarify information surrounding the U.S.-Japanese relationship and perceptions concerning the rapid economic development of Japan in the post-war era. An understanding of these basic factors is essential due to the economic integration of the U.S. and Japan and due to their disproportionate influence in the world. Unfortunately, many media reviews and analytical descriptions of these subjects is based upon a series of misperceptions and, at times, myths. The prevalence of this speculation, for lack of a better word, fails or detracts from the real meaning of Japanese economic ascension and the general importance of the bilateral relationship. Yes, Japan is different, but it is not immune from the laws of economics. It may require a different vantage point or angle to understand correctly, but it does not have a grant of immunity. Finally, it is essential to remind ourselves that there are many lessons the U.S. can learn from the Japanese miracle and/or lessons concerning general economic growth or development. Perhaps the true meaning of investigating the existing misperceptions concerning Japan are these lessons and insights into developmental factors. If this is the final conclusion of this analysis the contribution is far greater than the authors might have wished.

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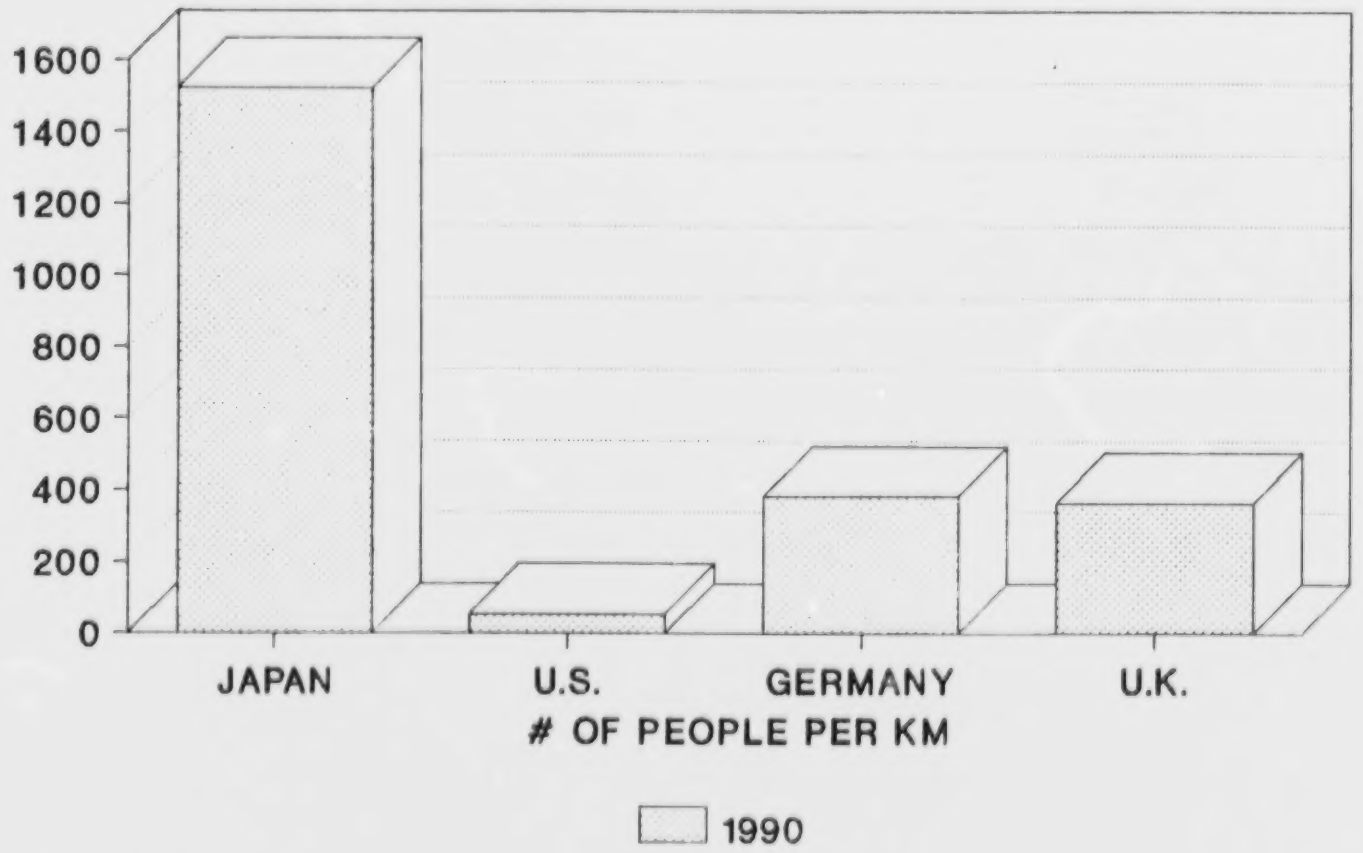
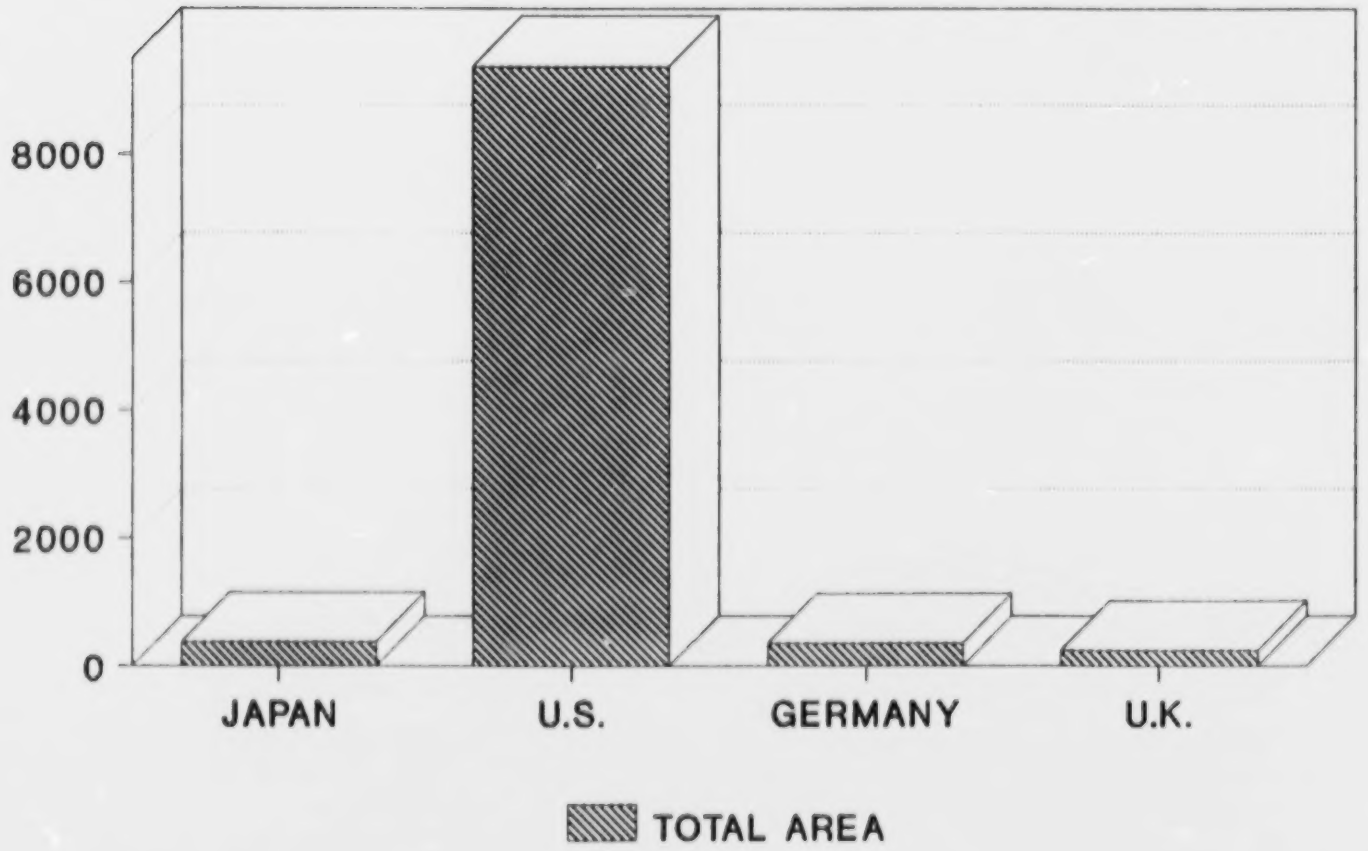
POPULATION DENSITY-
IN TERMS OF HABITABLE LAND



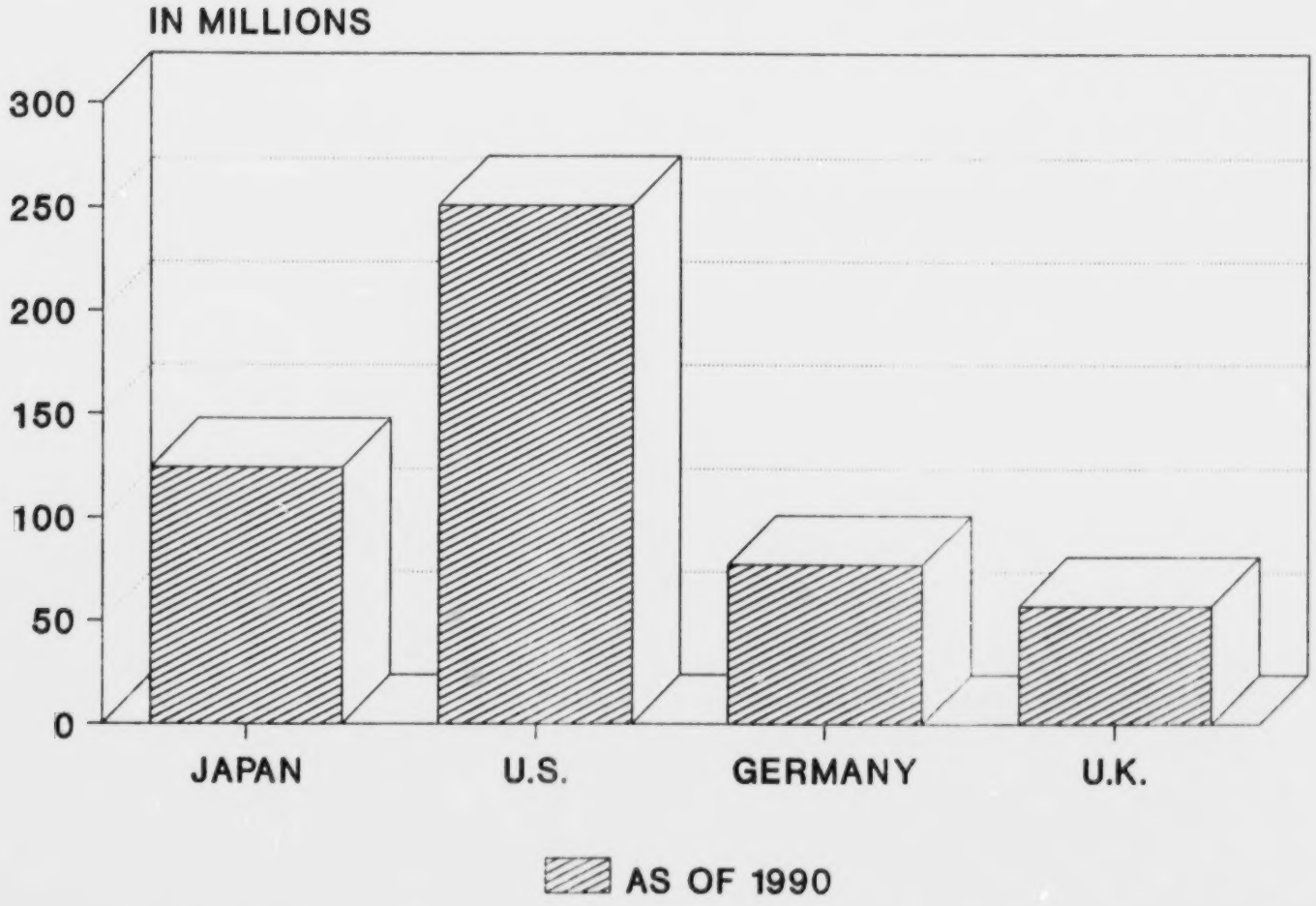
SOURCE: U.N.

TOTAL LAND AREA-
IN 1,000 KM2



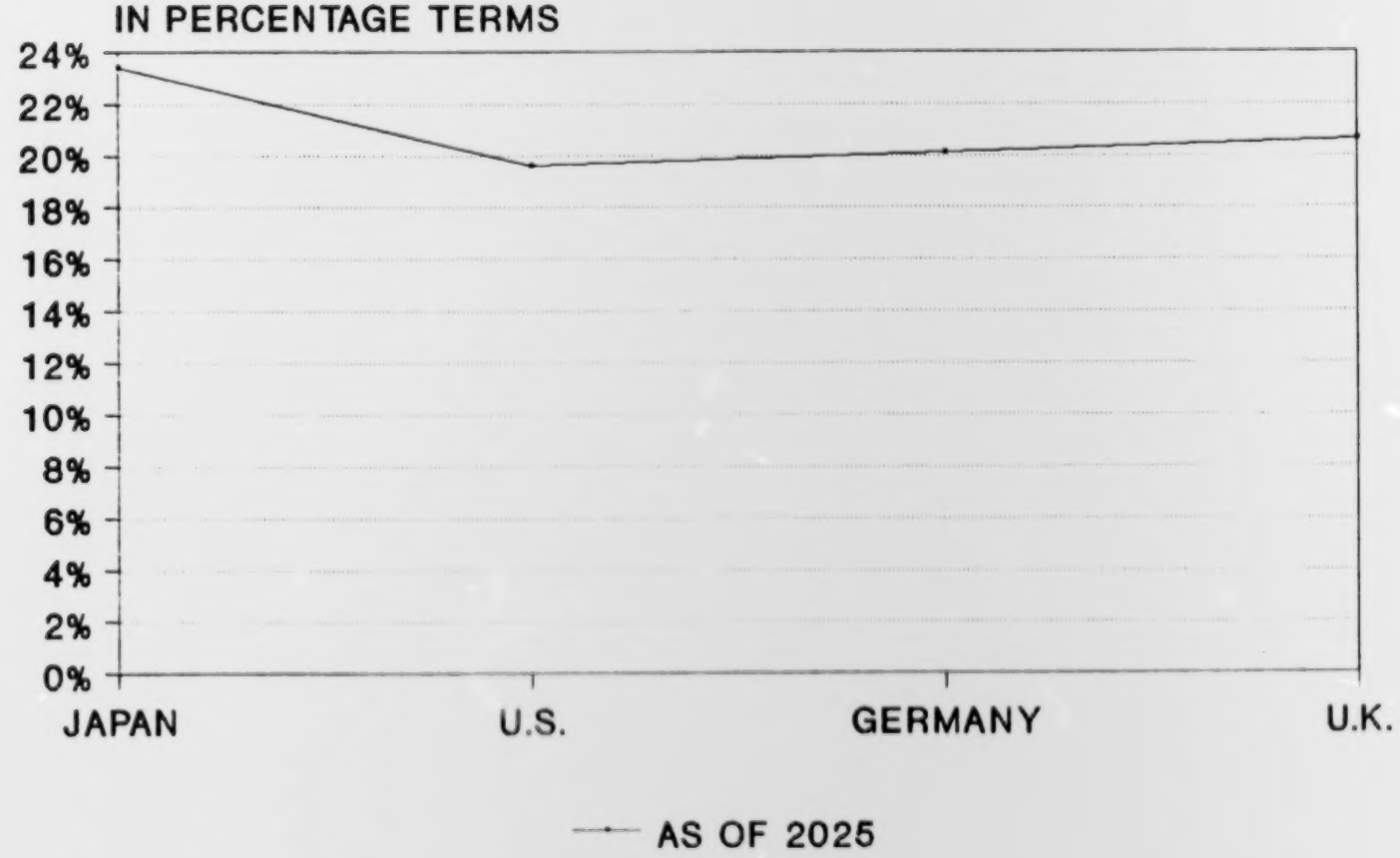
SOURCE: WORLD BANK

TOTAL POPULATION



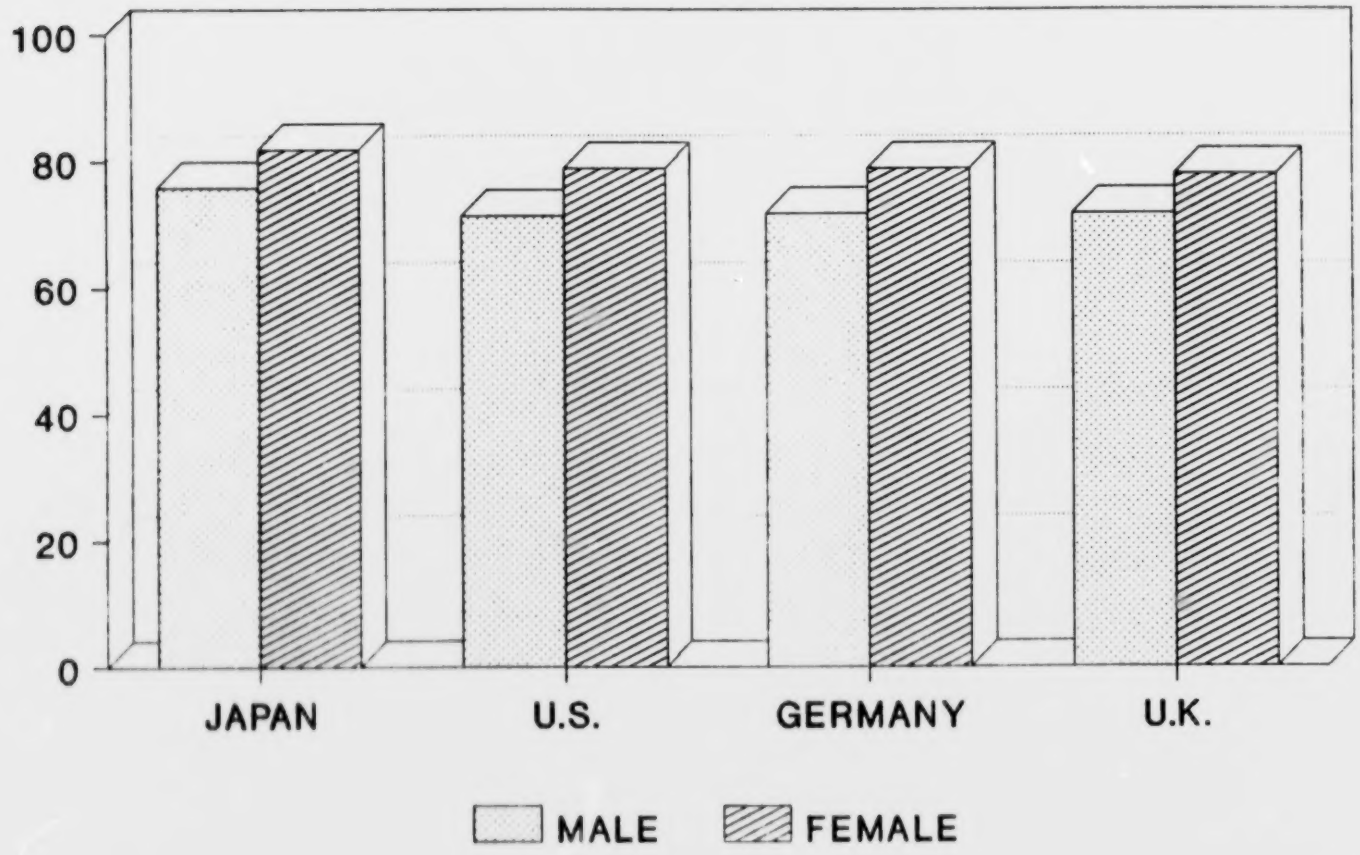
SOURCE: WORLD BANK

PERCENTAGE OF THE POPULATION OVER 65 YEARS



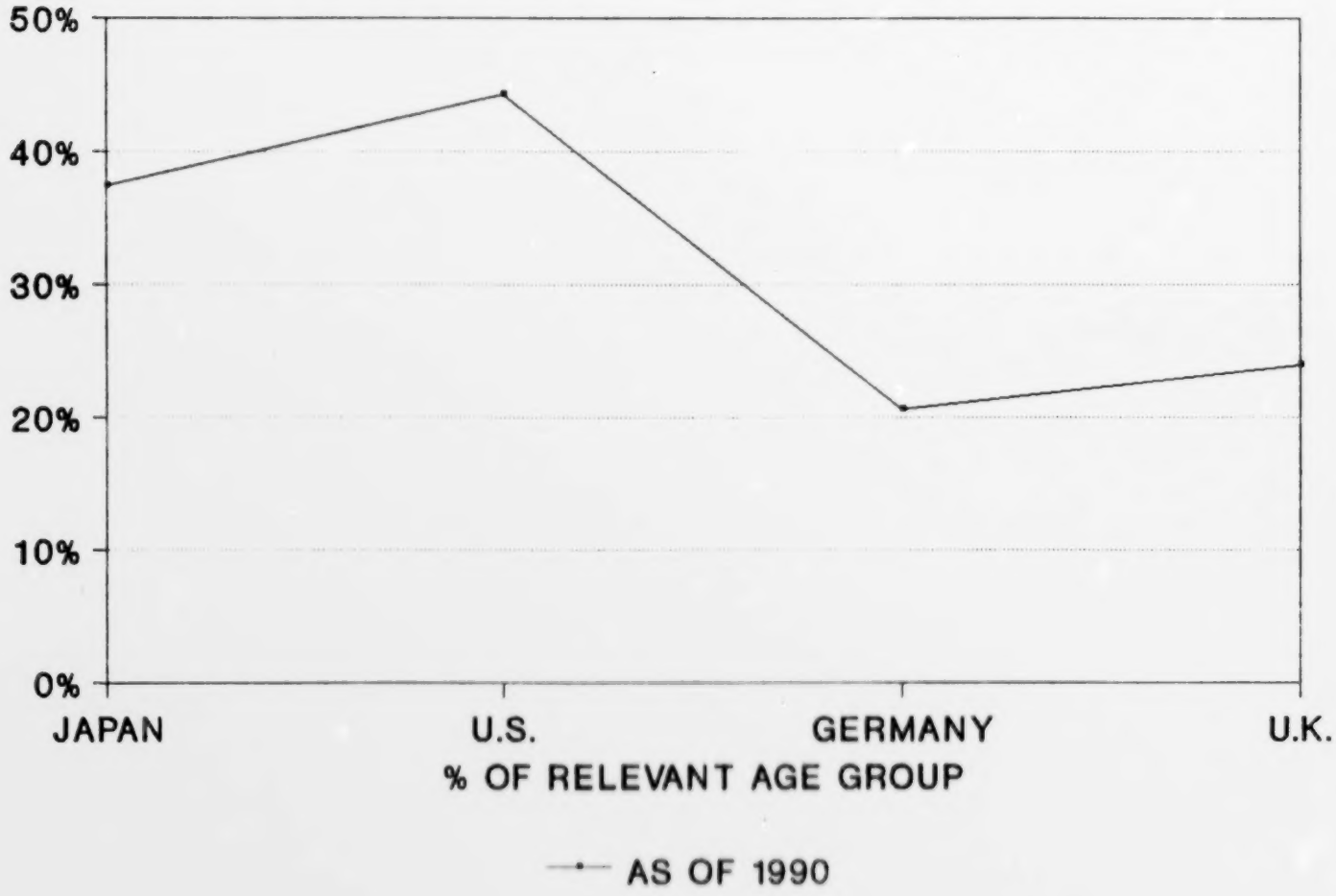
SOURCE: U.N.

LIFE EXPECTANCY AT BIRTH- MALE AND FEMALE



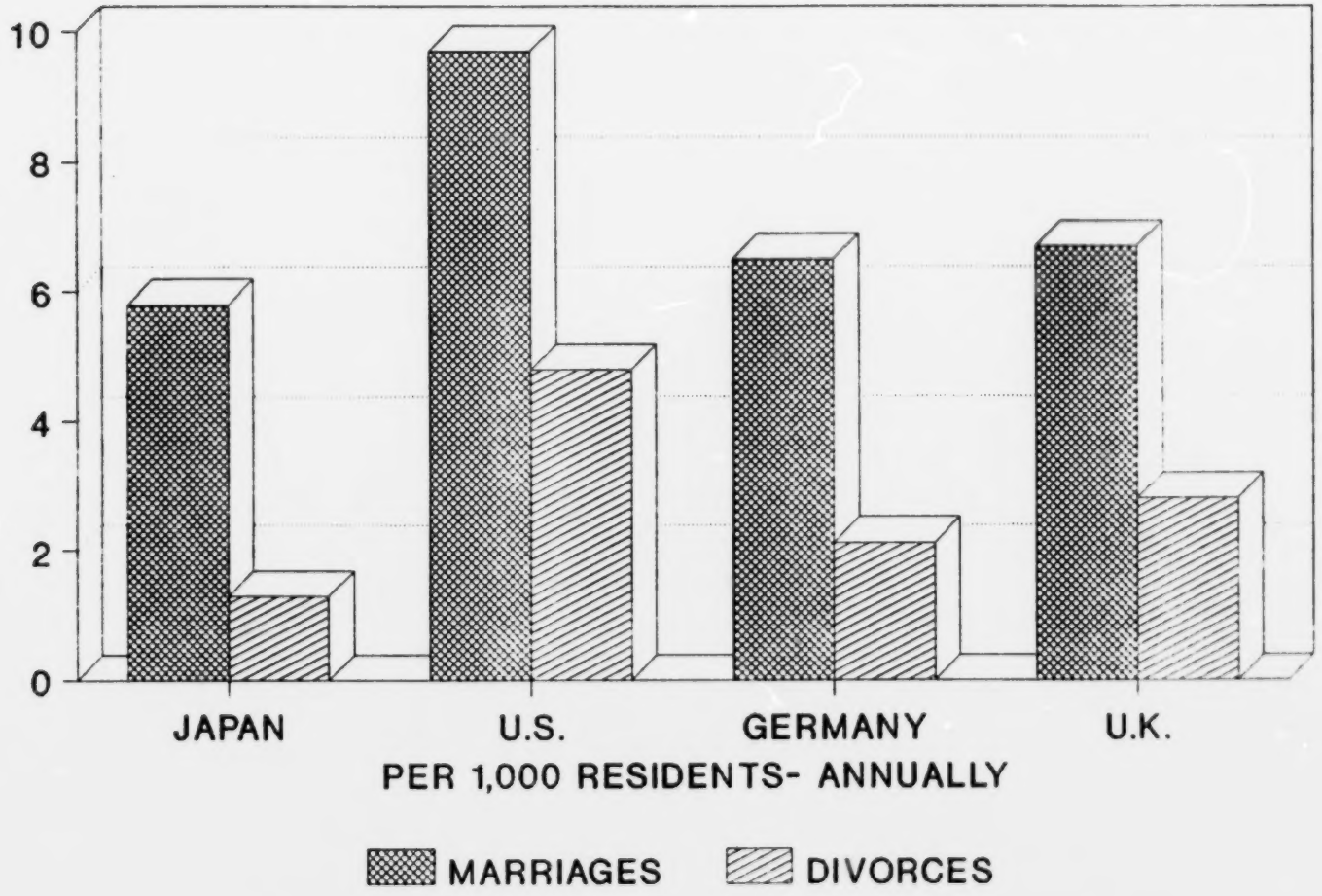
SOURCE: U.N.

COLLEGE ADVANCEMENT RATE



SOURCE: MINISTRY OF EDUCATION-JAPAN

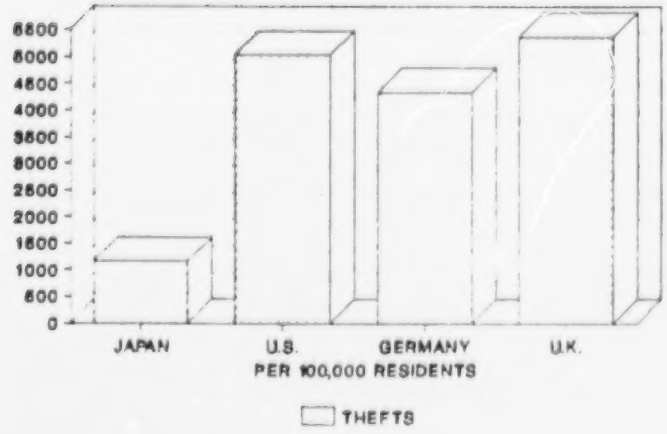
MARRIAGE AND DIVORCE RATES-



SOURCE: U.N.

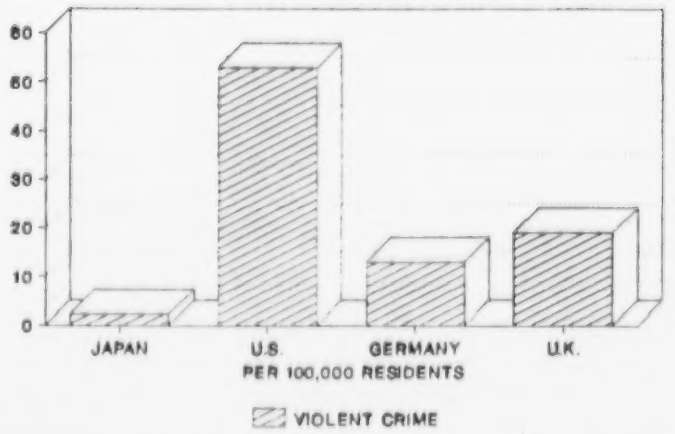
THEFTS AND VIOLENT CRIMES
(CRIME RATE BY COUNTRY)

THEFTS



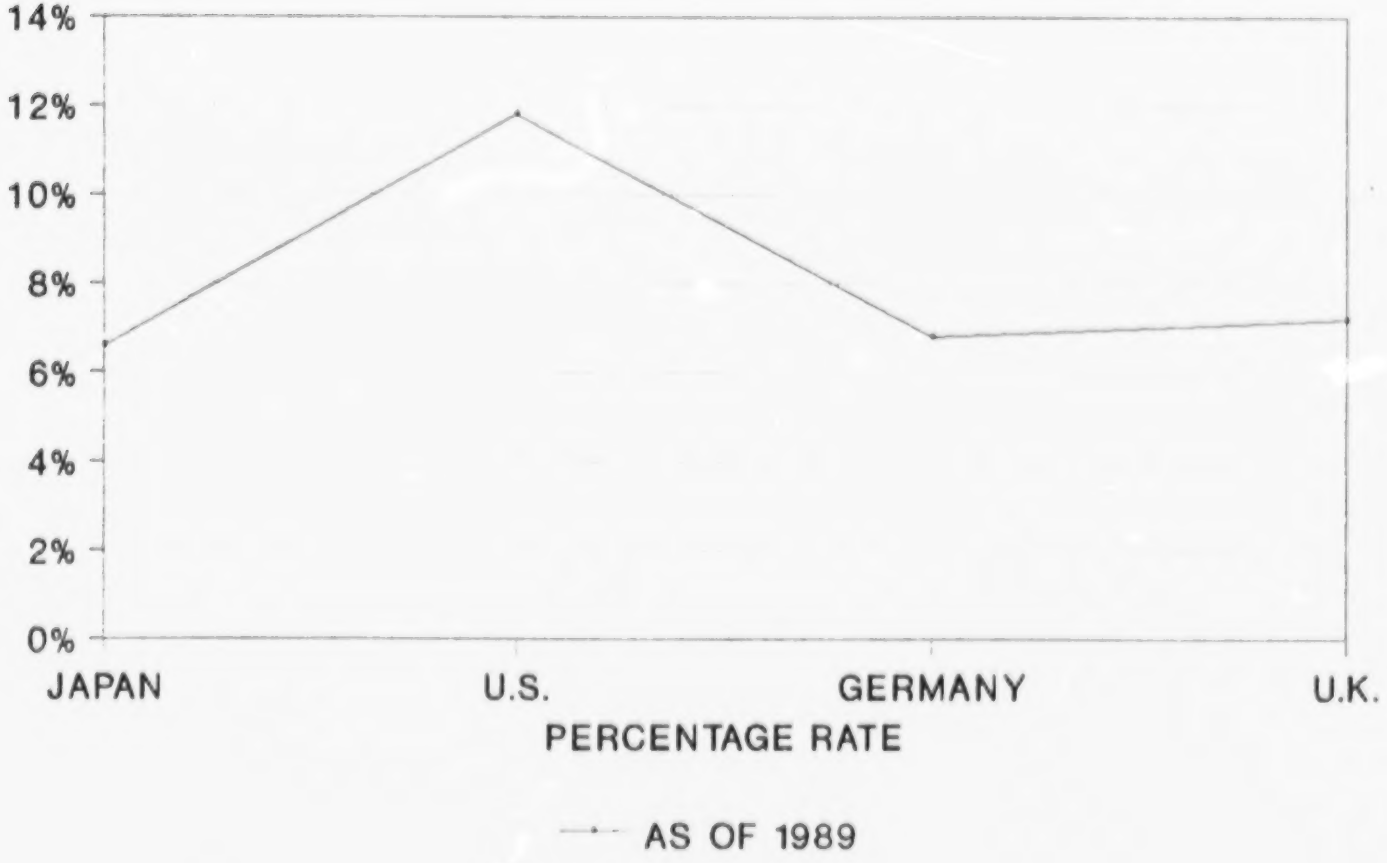
SOURCE: U.N.- VIOLENT CRIME= FORCIBLE RAPE & HOMICIDE

VIOLENT CRIMES



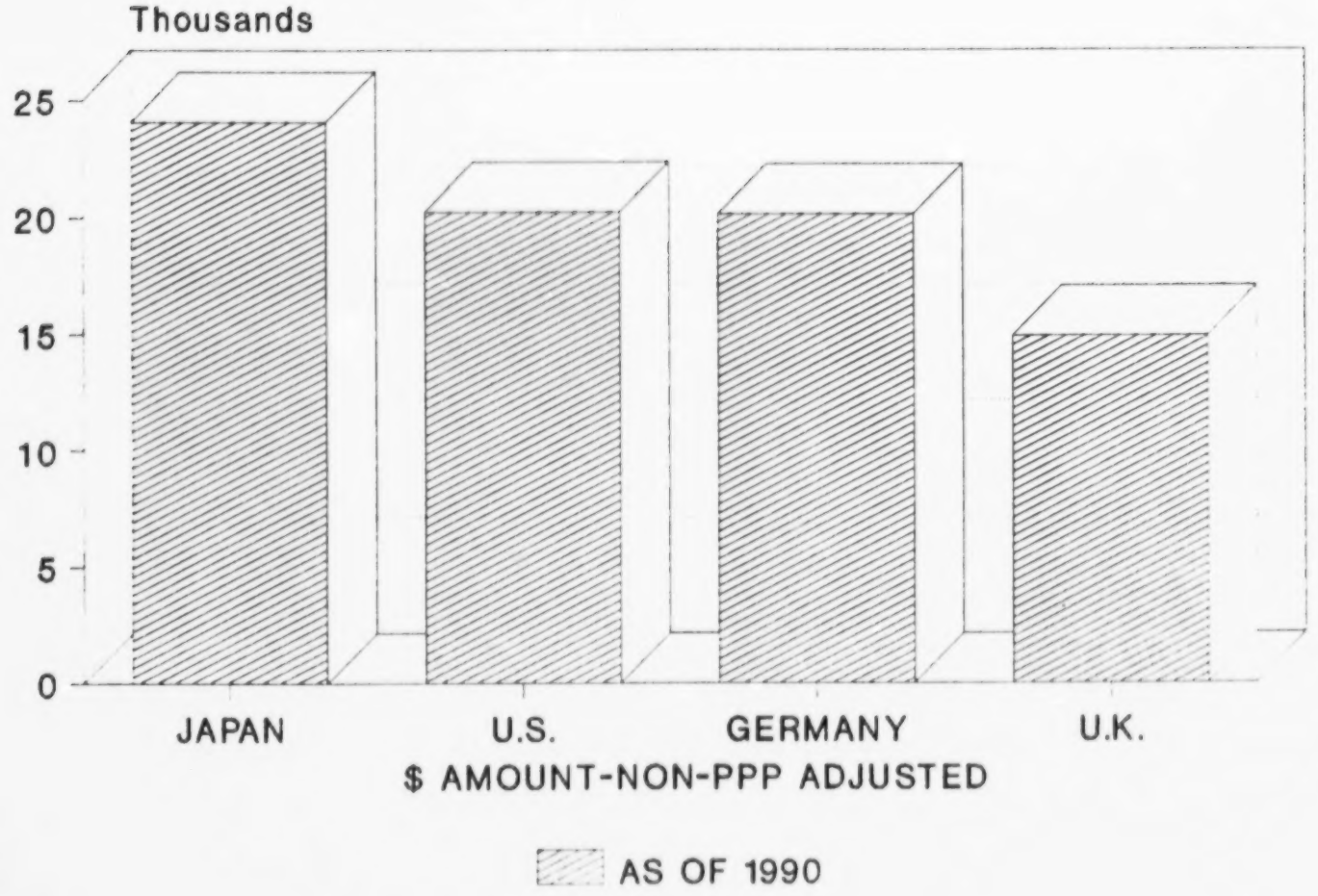
SOURCE: U.N.- VIOLENT CRIME= FORCIBLE RAPE & HOMICIDE

PERCENTAGE OF NATIONAL INCOME SPENT ON HEALTH CARE



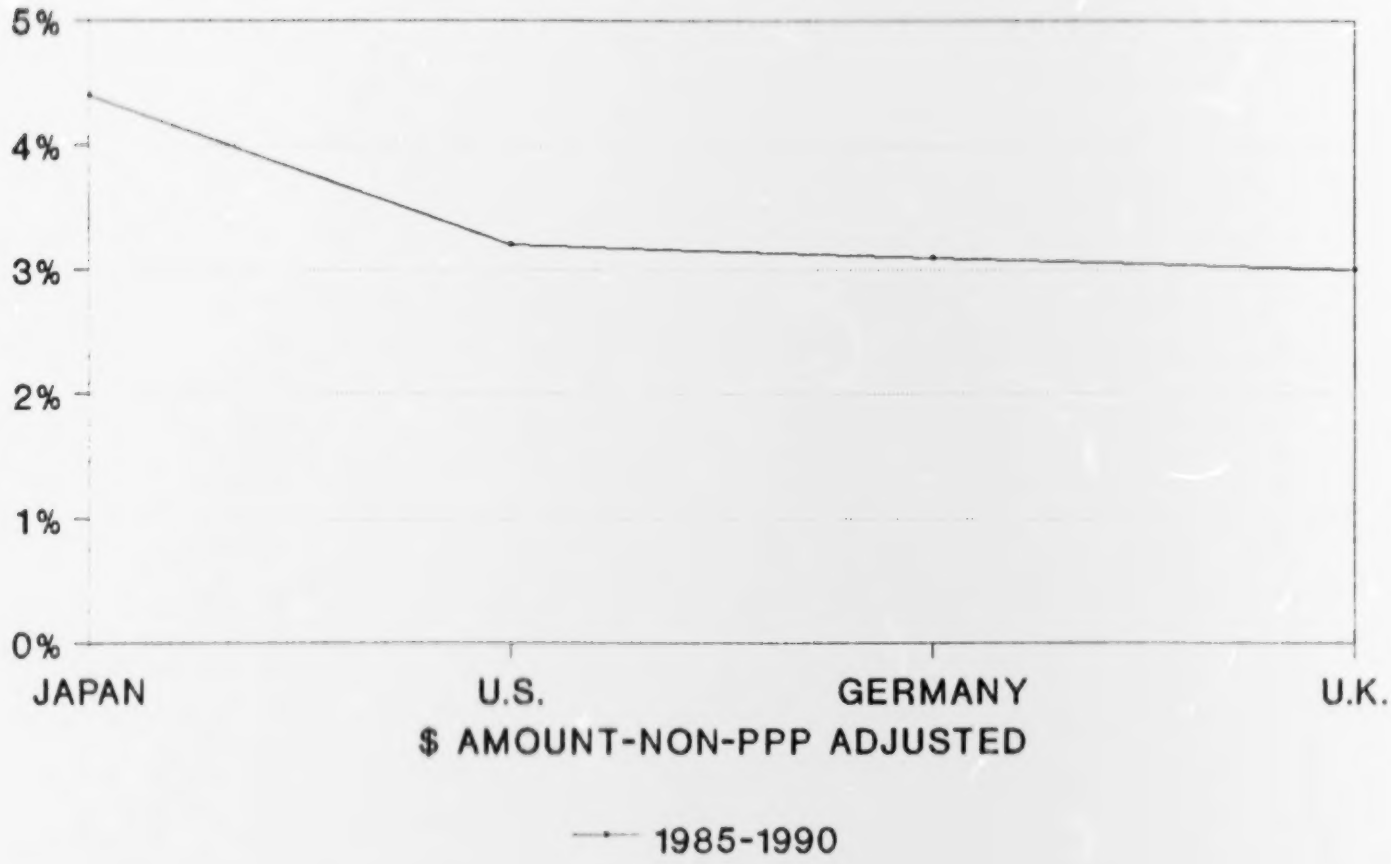
SOURCE: U.N.

PER CAPITA GNP



SOURCE: U.N.

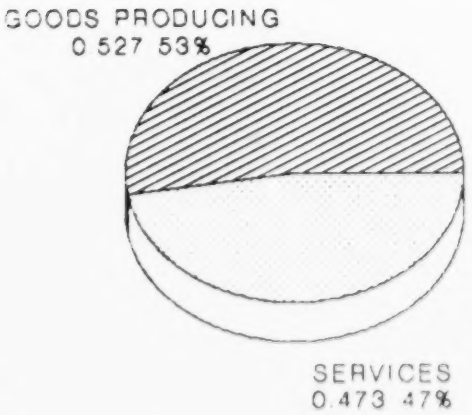
COMPARATIVE ECONOMIC GROWTH RATES- INCREASE IN GDP



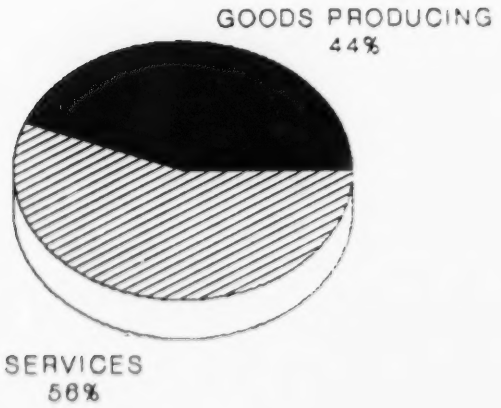
SOURCE: IMF

JAPANESE ECONOMY-
INDUSTRIAL STRUCTURE

1970

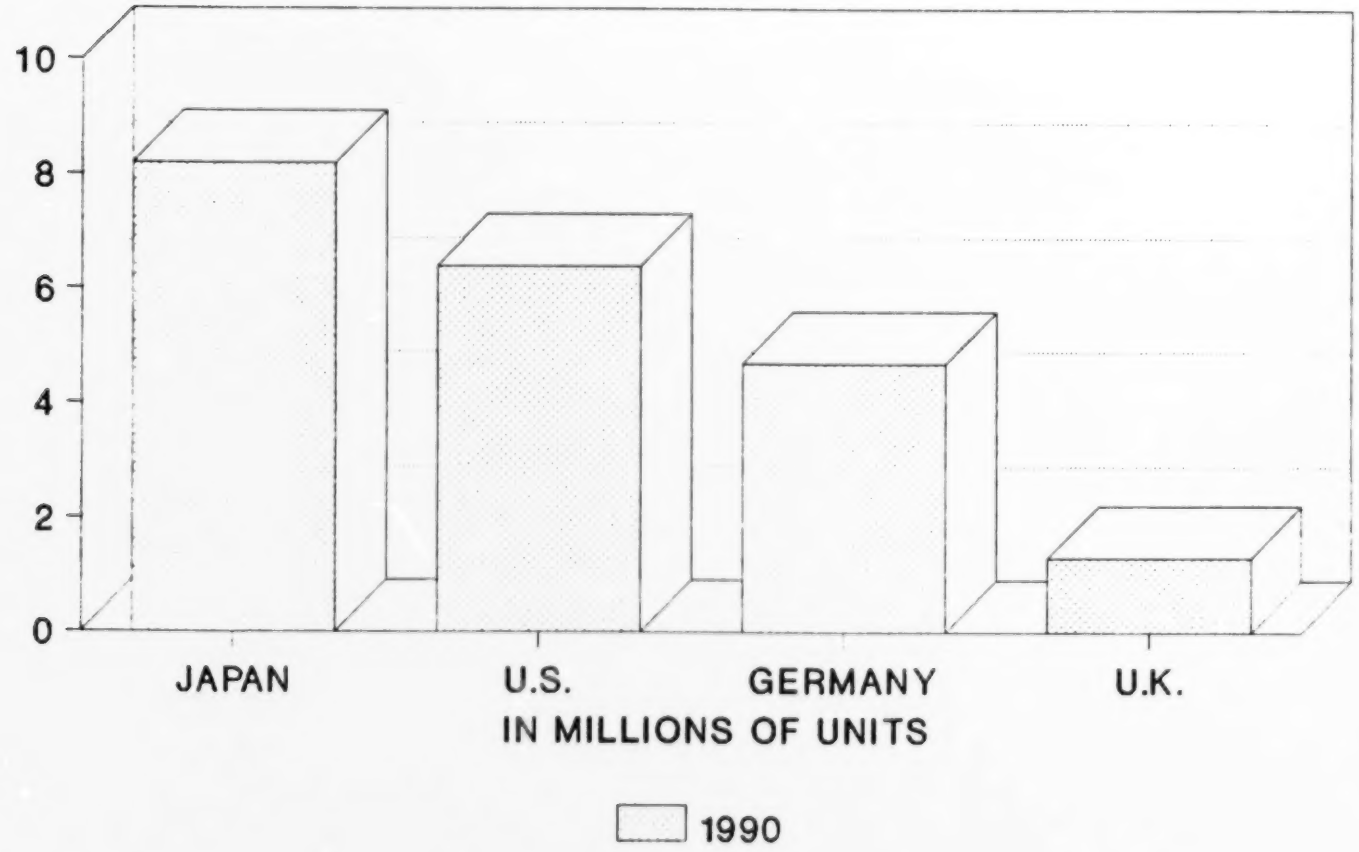


1989



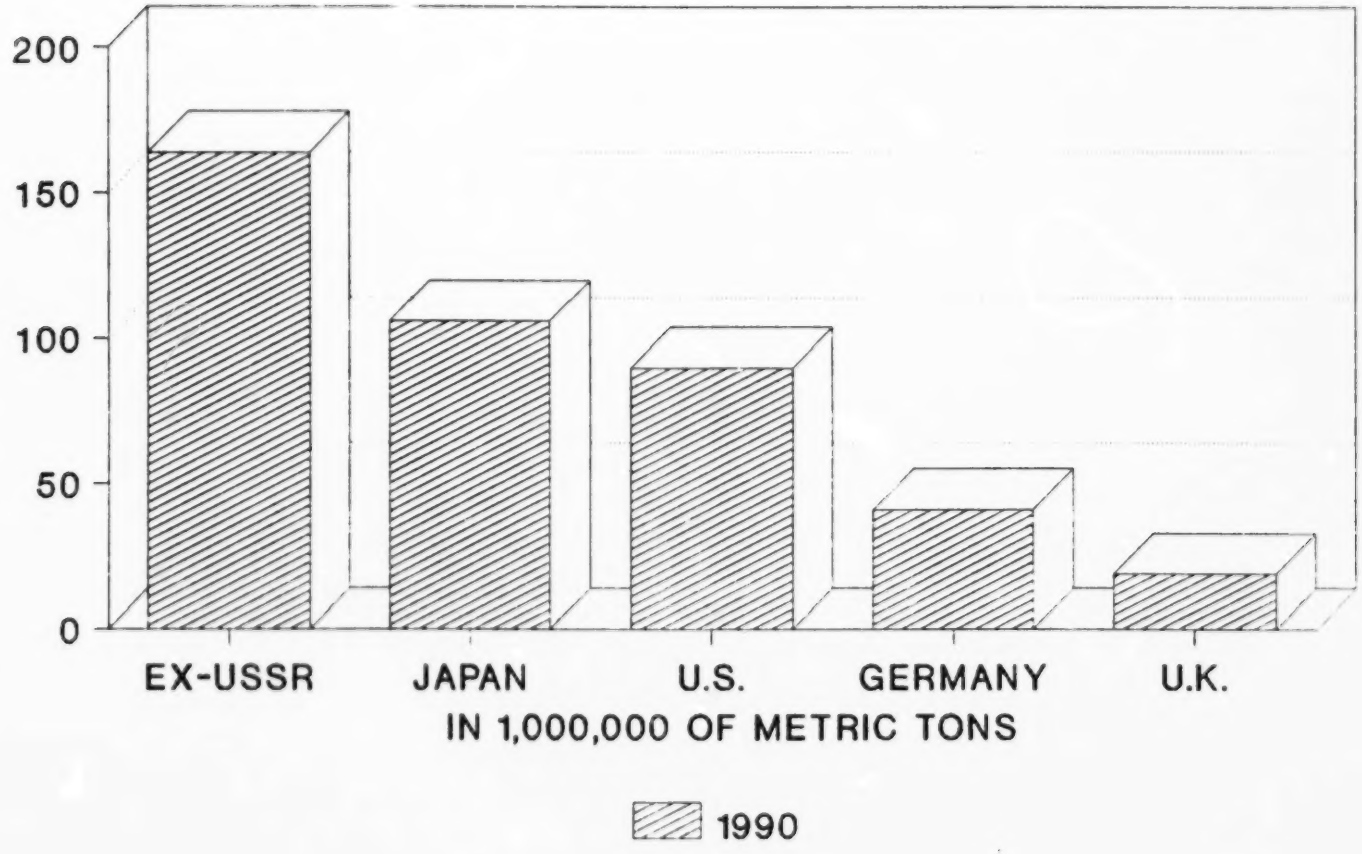
JAPANESE ECONOMIC PLANNING AGENCY

PASSENGER CAR PRODUCTION-
BY COUNTRY



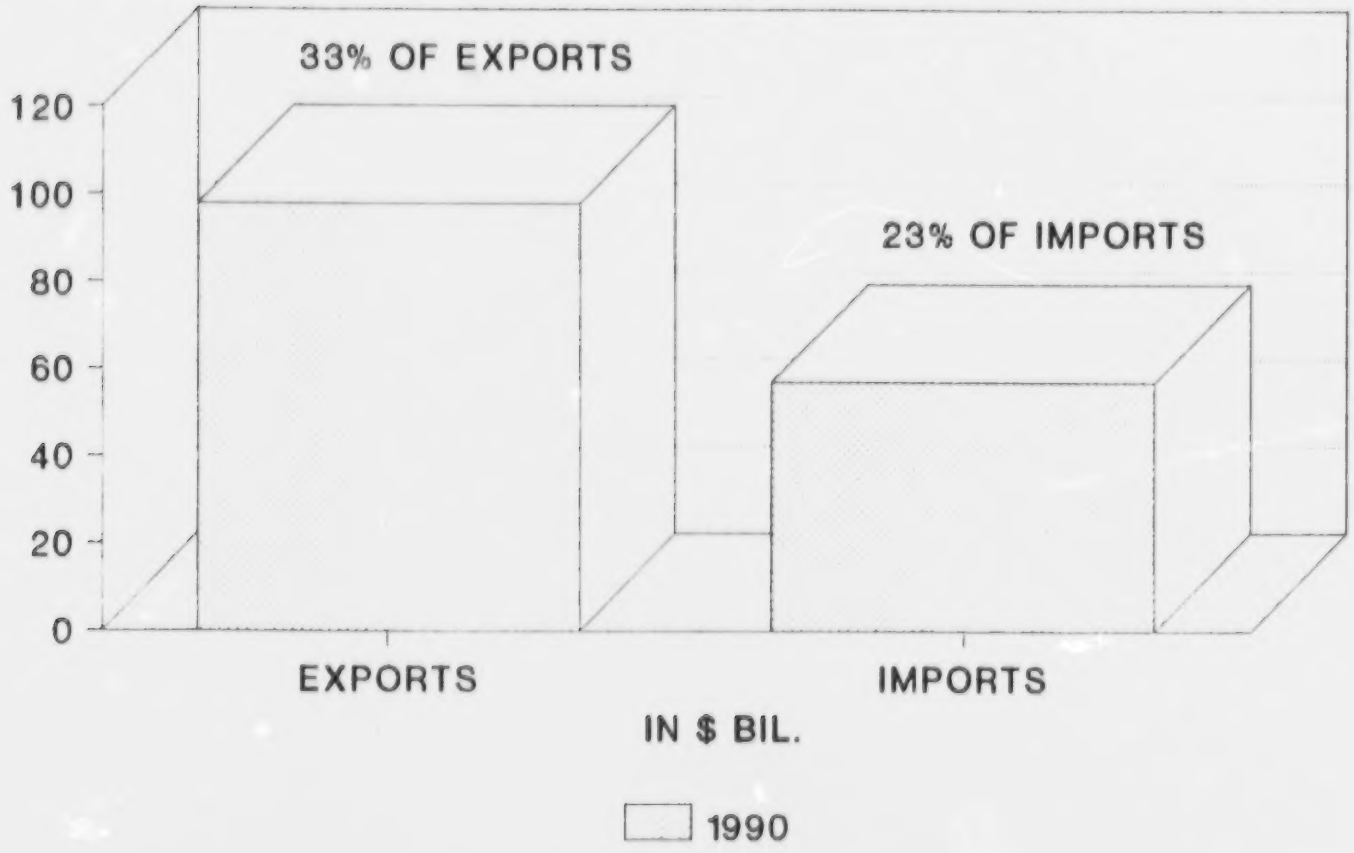
SOURCE: WORLD BANK

CRUDE STEEL PRODUCTION-
BY COUNTRY



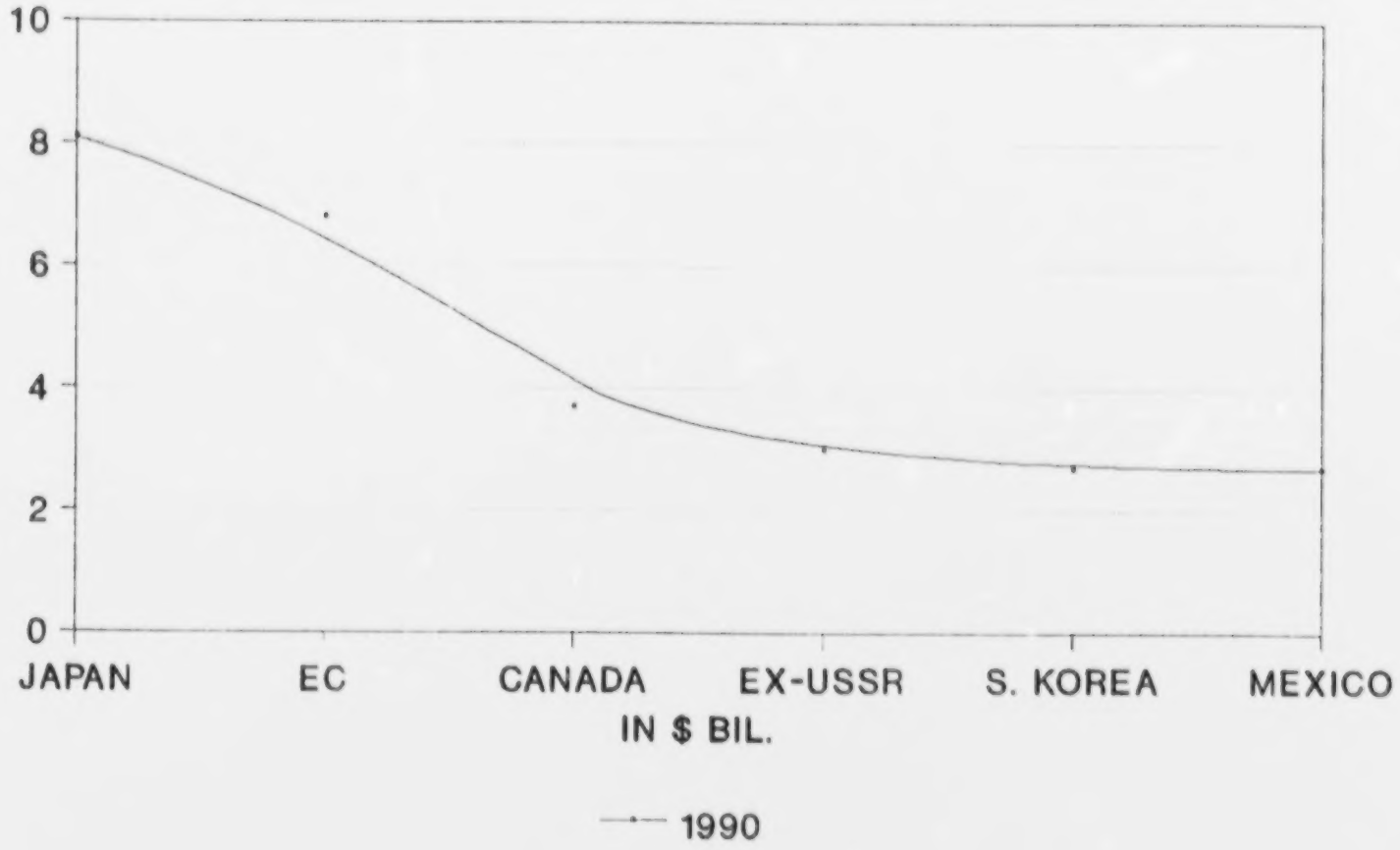
SOURCE: WORLD BANK

JAPANESE TRADE WITH THE U.S.- IMPORTS & EXPORTS



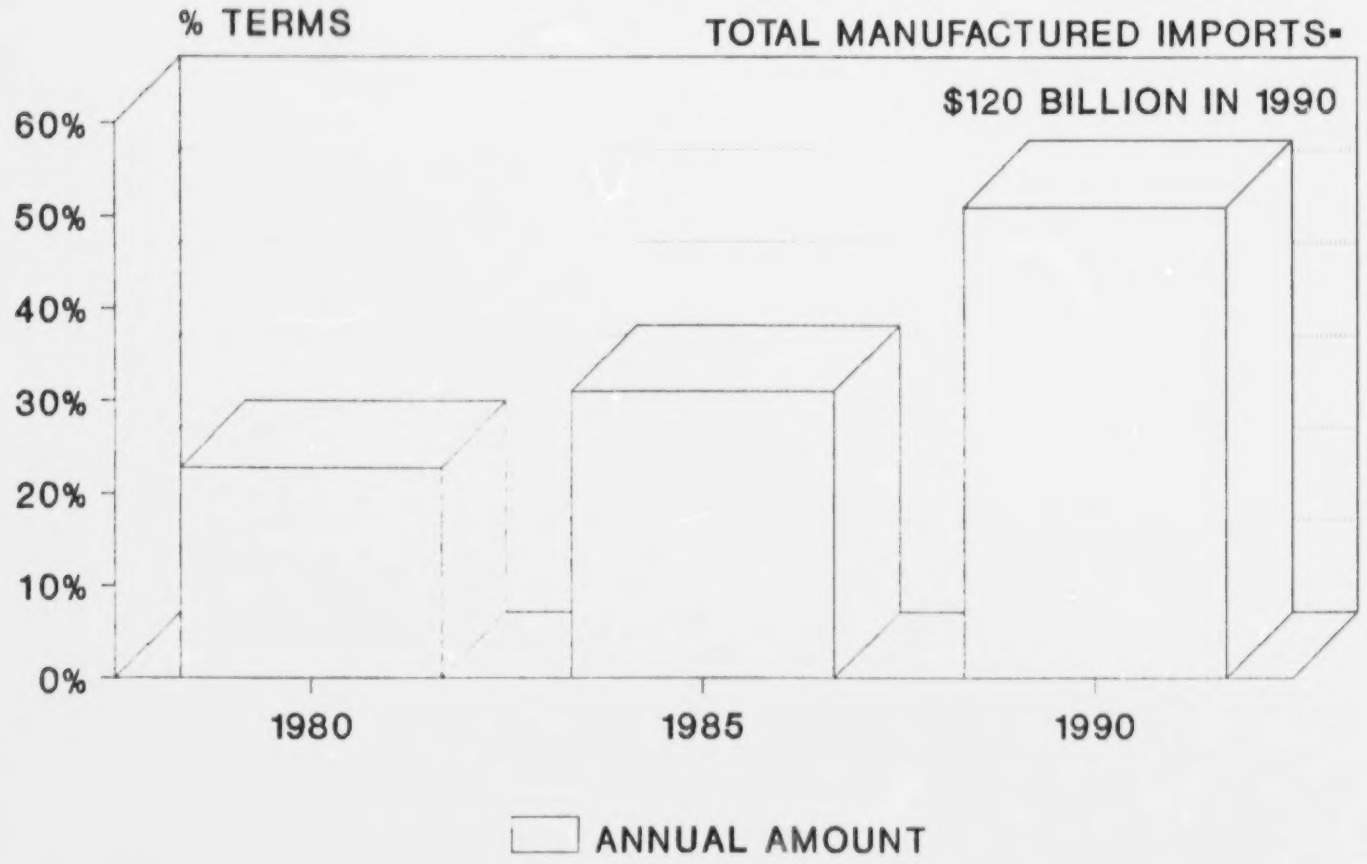
SOURCE: GATT

U.S. EXPORTS OF AGRICULTURAL PRODUCTS- BY COUNTRY



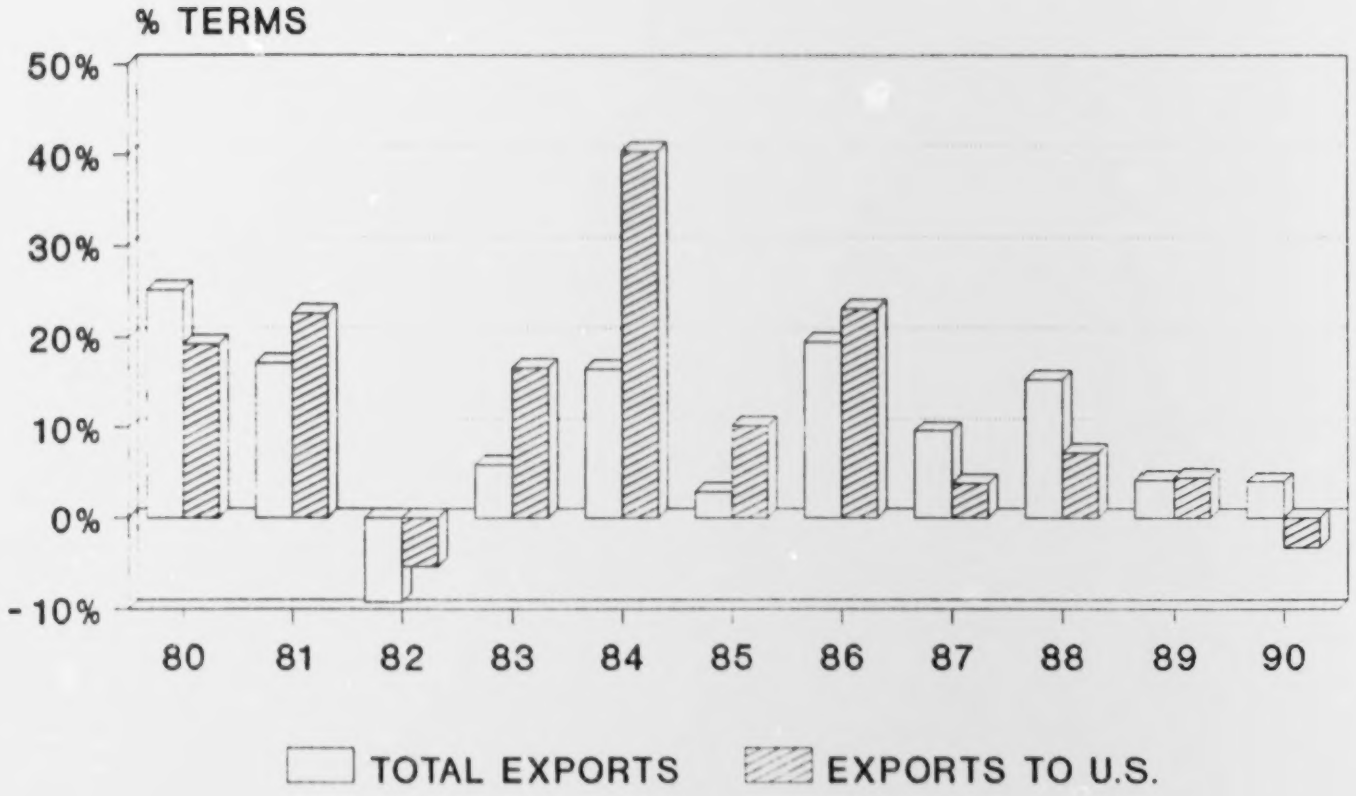
SOURCE: GATT

JAPANESE IMPORT OF MANUFACTURED GOODS AS A % OF TOTAL IMPORTS



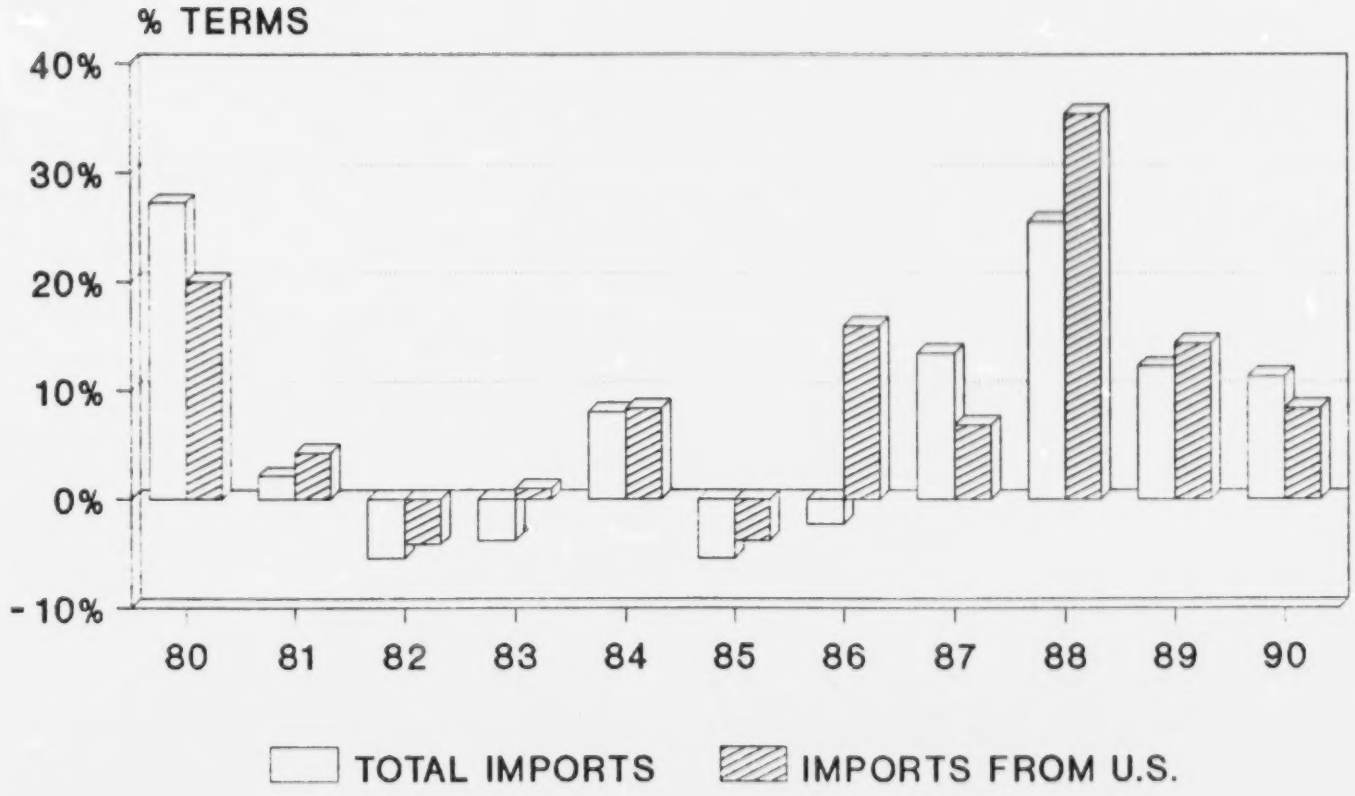
SOURCE: OECD

JAPANESE EXPORT LEVELS- ANNUAL CHANGE



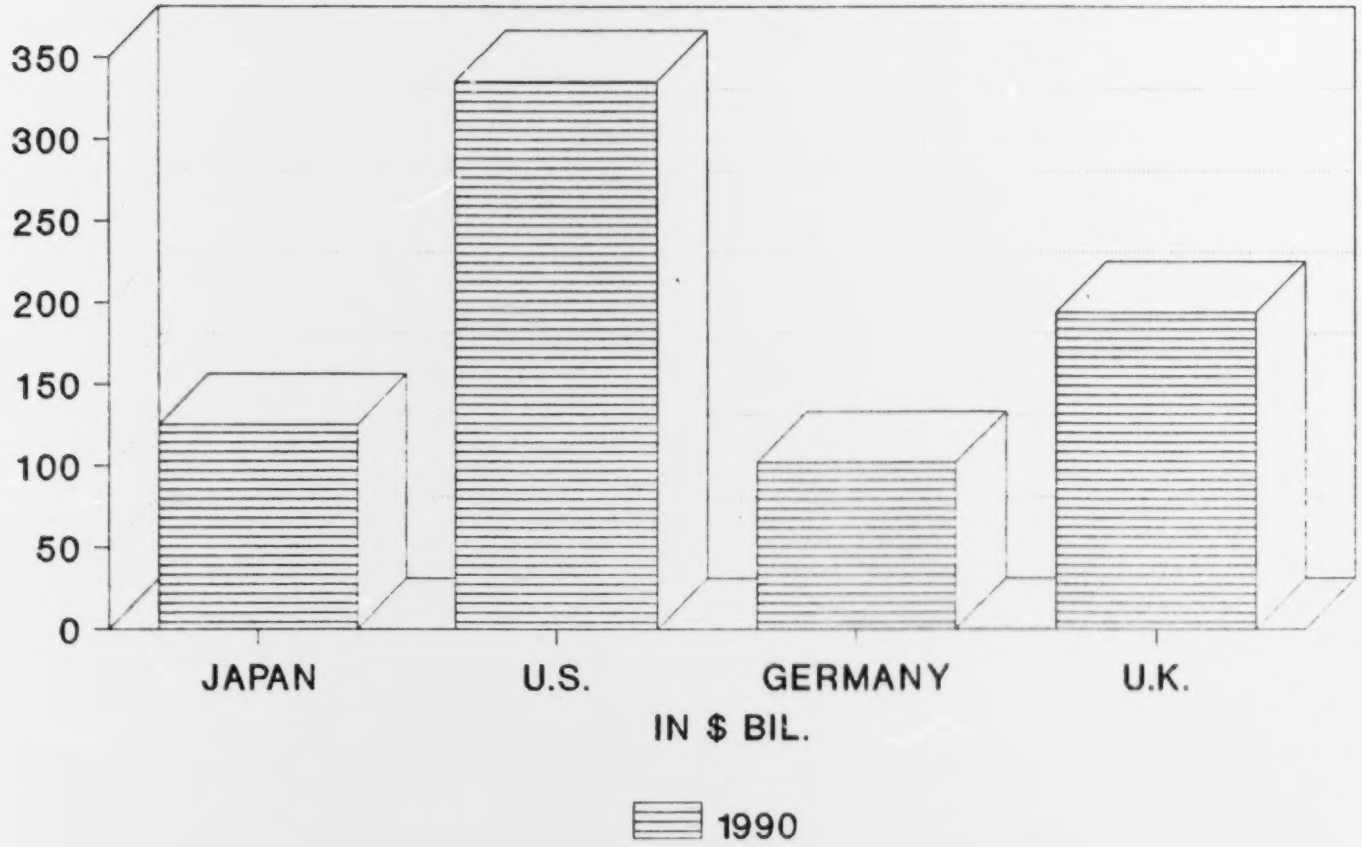
SOURCE: OECD
NOTE CAN BE IMPACTED BY
EXCHANGE RATE CHANGES

JAPANESE IMPORT LEVELS- ANNUAL CHANGE



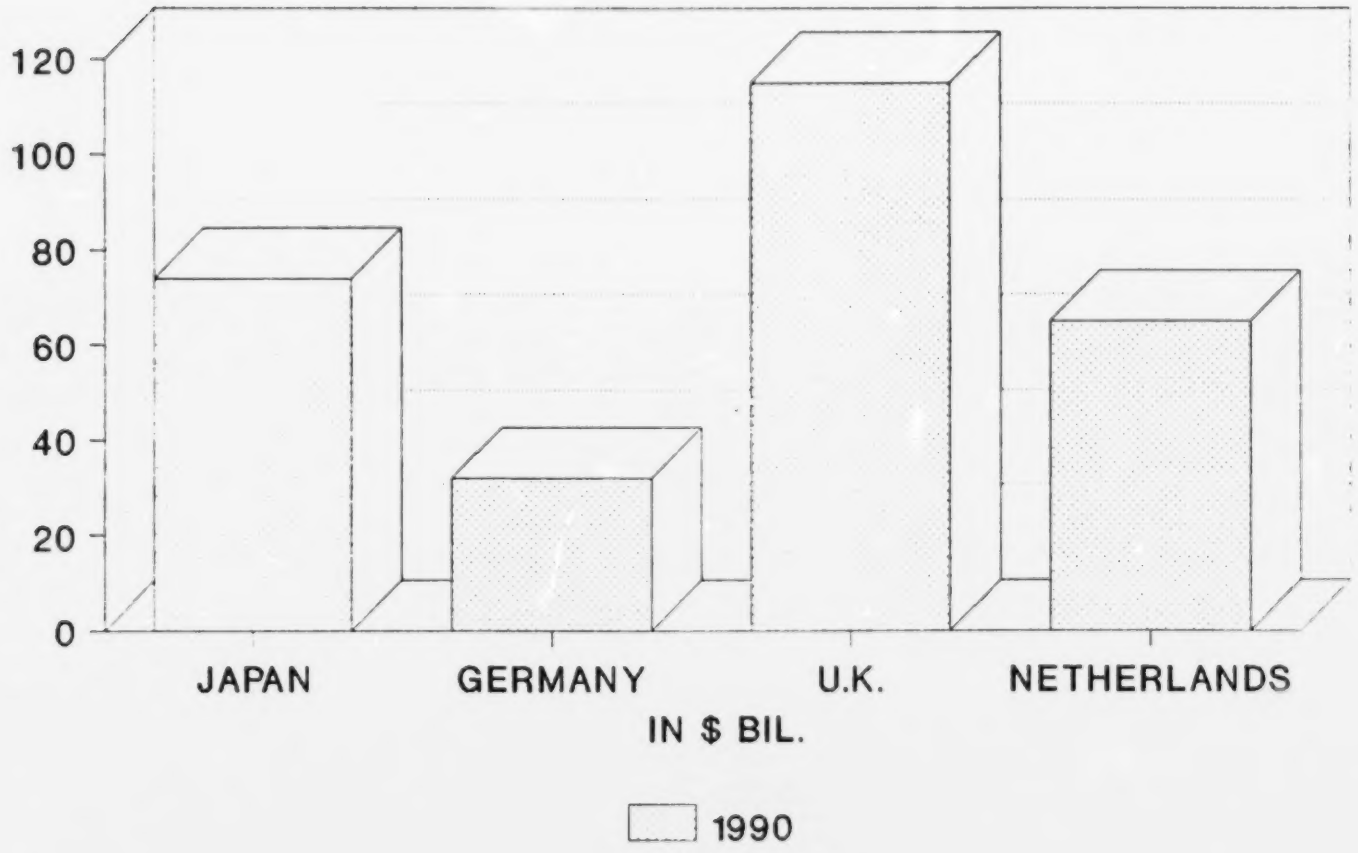
SOURCE: OECD
NOTE CAN BE IMPACTED BY
EXCHANGE RATE CHANGES

TOTAL DIRECT FOREIGN INVESTMENT-



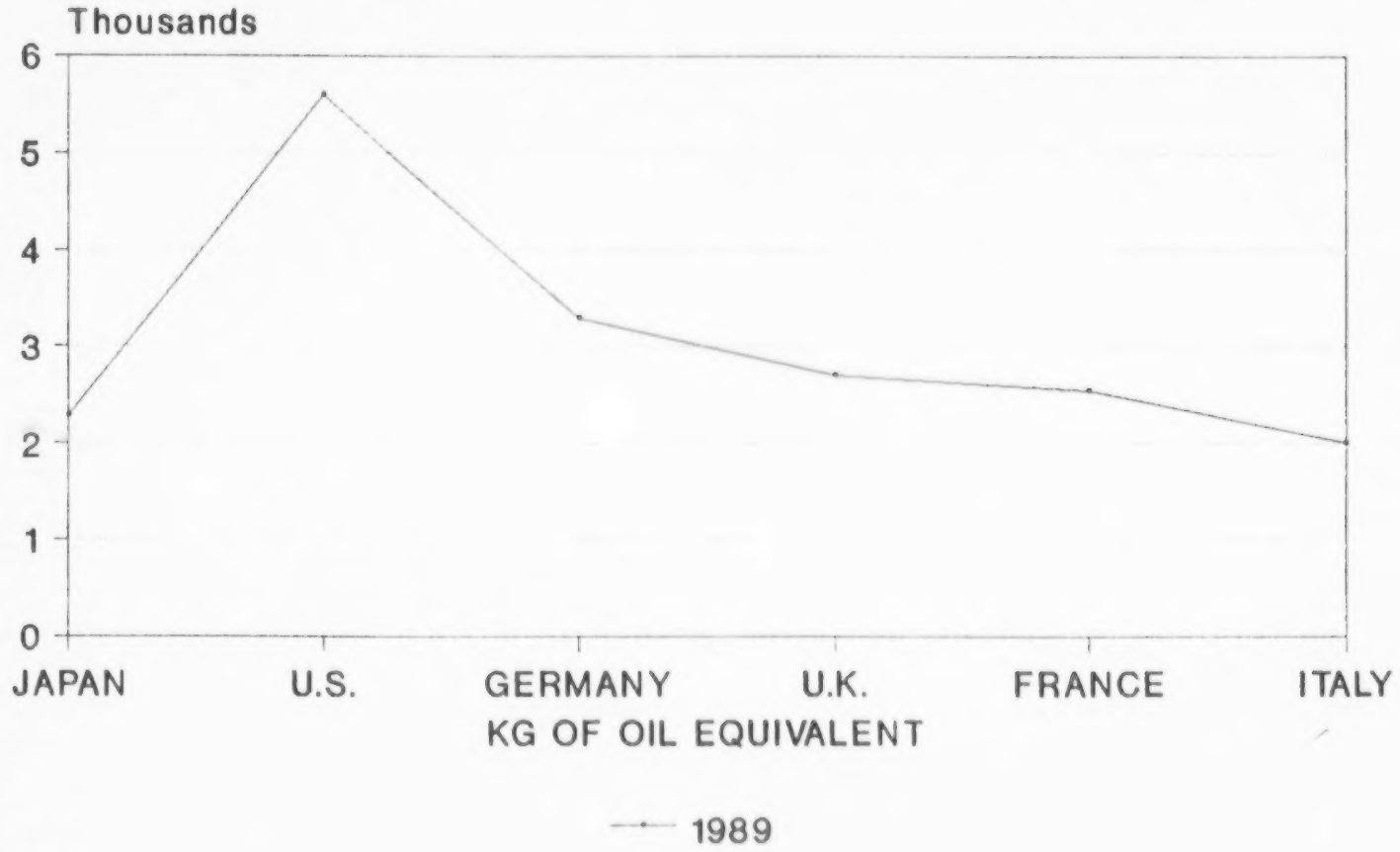
SOURCE: GATT

DIRECT FOREIGN INVESTMENT IN THE U.S.-



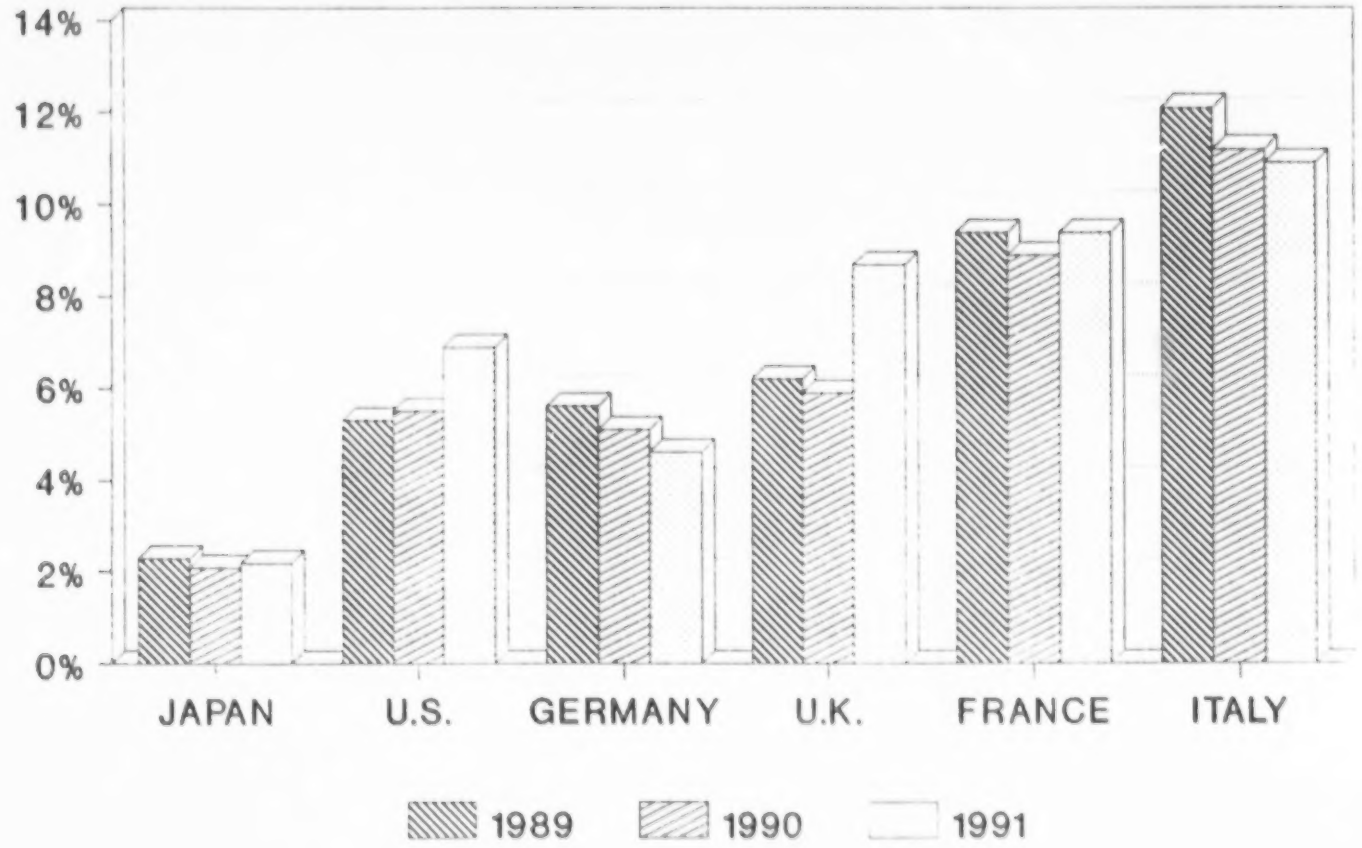
SOURCE: GATT

PER CAPITA ENERGY CONSUMPTION LEVELS-



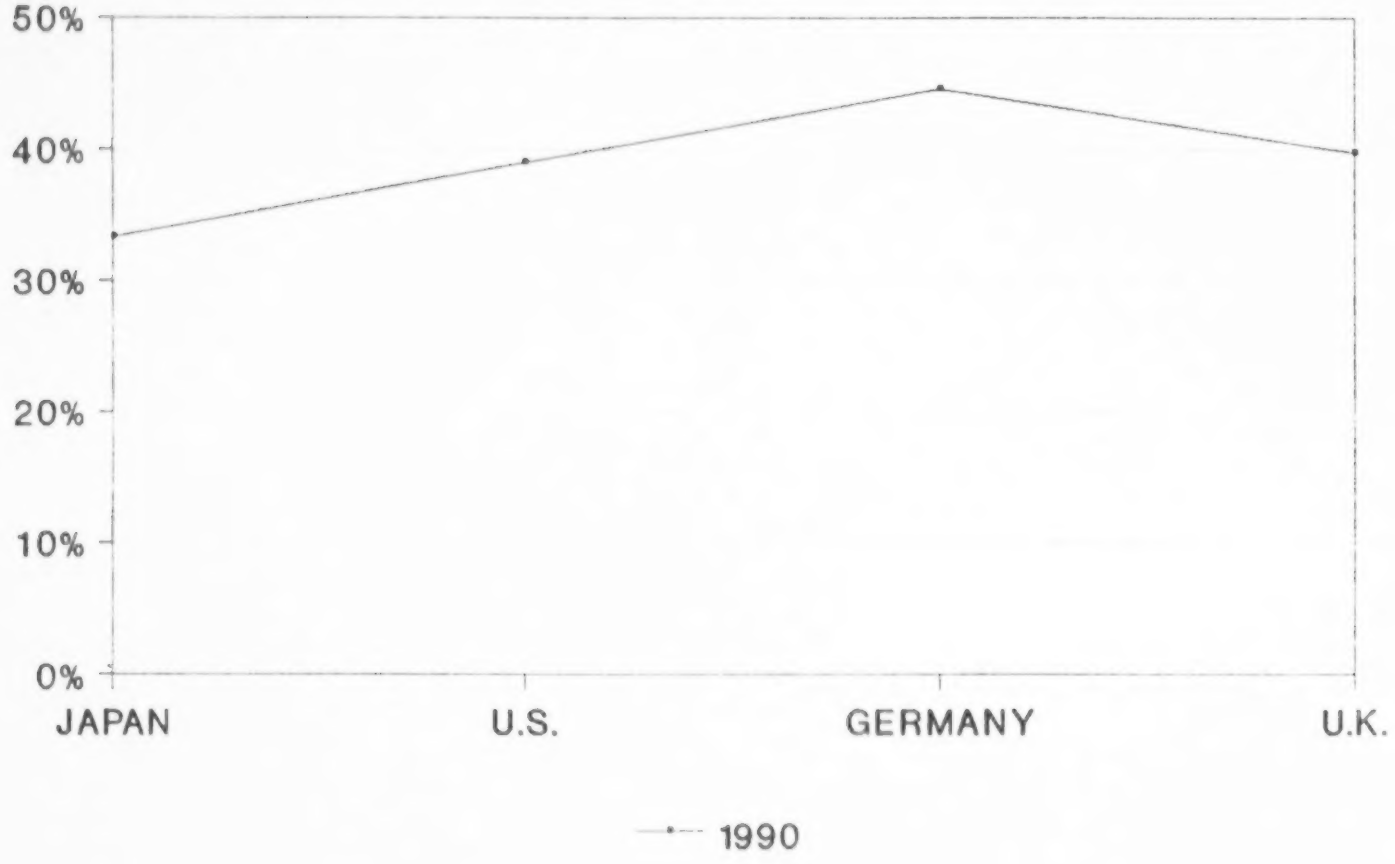
SOURCE: GATT

UNEMPLOYMENT LEVELS BY COUNTRY-



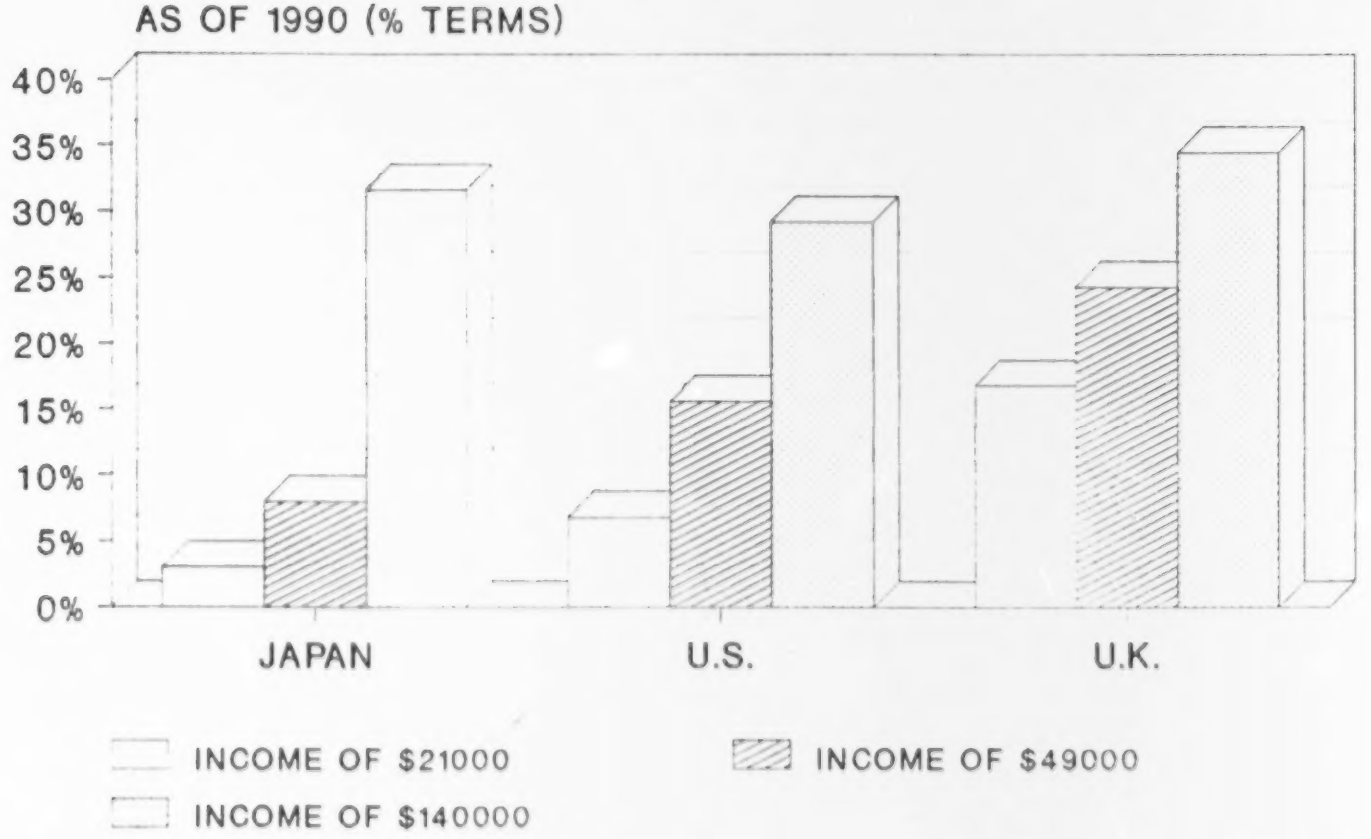
SOURCE: GATT

GOVERNMENT RECEIPTS AS A PERCENTAGE OF GDP



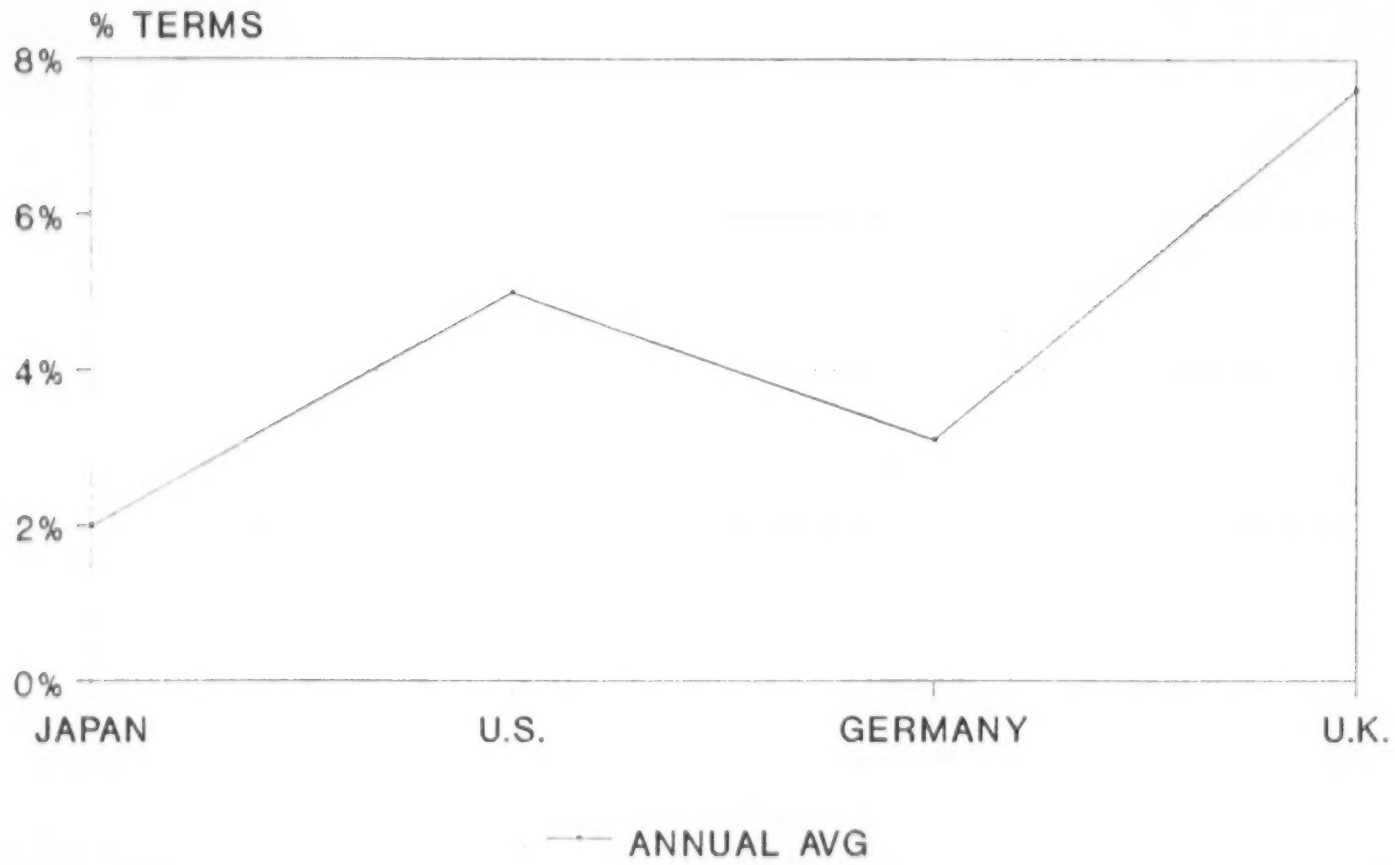
SOURCE: OECD

INCOME TAX RATES-
FAMILY OF FOUR



SOURCE: MINISTRY OF FINANCE

CONSUMER PRICE INDEX-
AVERAGE 1980-1990



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